Quarterly Financial Reporting Package
For the period ended June 30, 2020

Spanish Broadcasting System, Inc.

Delaware	**13-3827791**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

7007 NW 77th Ave.
Miami, Florida 33166
(Address of principal executive offices) (Zip Code)

(305) 441-6901
(Company's telephone number, including area code)

SPANISH BROADCASTING SYSTEM, INC.

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FINANCIAL INFORMATION

Financial Statements—Unaudited

SPANISH BROADCASTING SYSTEM, INC. AND SUBSIDIARIES

Unaudited Condensed Consolidated Balance Sheets
(In thousands, except share data)

Assets	June 30, 2020	December 31, 2019
Current assets:		
Cash and cash equivalents	$ 38,305	$ 20,856
Receivables:		
Trade	27,798	40,394
Barter	178	197
	27,976	40,591
Less allowance for doubtful accounts	2,408	1,122
Net receivables	25,568	39,469
Prepaid expenses and other current assets	6,621	7,475
Assets held for sale	—	12,474
Total current assets	70,494	80,274
Property and equipment, net of accumulated depreciation of $61,206 in 2020 and $60,004 in 2019	22,543	23,022
FCC broadcasting licenses	297,179	311,282
Goodwill	32,806	32,806
Operating lease right-of-use assets	16,700	17,978
Other assets	4,876	3,682
Total assets	$ 444,598	$ 469,044
Liabilities and Stockholders' Deficit		
Current liabilities:		
Accounts payable and accrued expenses	$ 19,634	$ 20,333
Accrued interest	1,671	1,513
Unearned revenue	945	991
Operating lease liabilities	753	948
Liabilities held for sale	—	1,510
12.5% senior secured notes (note 9)	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 June 30, 2020 and December 31, 2019 and $99,367 and $94,500 of dividends payable as of June 30, 2020 and December 31, 2019, respectively (note 10)	189,916	185,049
Total current liabilities	462,783	460,208
Other liabilities, less current portion	3,603	2,877
Operating lease liabilities - net of current portion	17,094	17,538
Deferred tax liabilities	65,910	68,718
Total liabilities	549,390	549,341
Commitments and contingencies (note 7)		
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 June 30, 2020 and December 31, 2019	4	4
Class A common stock, $0.0001 par value. Authorized 100,000,000 shares; 4,241,991 shares issued and outstanding at June 30, 2020 and December 31, 2019	—	—
Class B common stock, $0.0001 par value. Authorized 50,000,000 shares; 2,340,353 shares issued and outstanding at June 30, 2020 and December 31, 2019	—	—
Additional paid-in capital	526,204	526,201
Accumulated deficit	(631,000)	(606,502)
Total stockholders' deficit	(104,792)	(80,297)
Total liabilities and stockholders' deficit	$ 444,598	$ 469,044

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 June 30,		Six-Months Ended June 30,	
	2020	**2019**	**2020**	**2019**
Net revenue	$ 15,528	$ 36,931	$ 51,803	$ 74,286
Operating expenses:				
Engineering and programming	3,889	7,056	11,563	14,087
Selling, general and administrative	8,346	14,910	26,587	34,164
Corporate expenses	1,651	2,798	4,475	5,549
Depreciation and amortization	854	899	1,700	1,772
Total operating expenses	14,740	25,663	44,325	55,572
Loss (gain) on disposal of assets, net of disposal costs	9	—	(3,177)	—
Recapitalization costs	1,011	1,444	2,695	3,374
Executive severance expenses	—	1,844	—	1,844
Impairment charges	249	—	14,352	—
Other operating income	(10)	(3)	(10)	(56)
Operating (loss) income	(471)	7,983	(6,382)	13,552
Other expense:				
Interest expense, net	(7,915)	(7,805)	(15,831)	(15,612)
Dividends on Series B preferred stock classified as interest expense (note 10)	(2,433)	(2,433)	(4,867)	(4,867)
Loss before income tax	(10,819)	(2,255)	(27,080)	(6,927)
Income tax benefit	(651)	(486)	(2,582)	(1,226)
Net loss	$ (10,168)	$ (1,769)	$ (24,498)	$ (5,701)
Class A and B net loss per common share (note 3)				
Basic and diluted	$ (1.38)	$ (0.24)	$ (3.34)	$ (0.78)

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)

	Six-Months Ended June 30,	
	2020	**2019**
Cash flows from operating activities:		
Net loss	$ (24,498)	$ (5,701)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Dividends on Series B preferred stock classified as interest expense (note 10)	4,867	4,867
Gains on the disposal of assets (net of disposal costs) and from insurance proceeds received for damaged equipment	(3,177)	(39)
Impairment charges	14,352	—
Stock-based compensation	3	7
Depreciation and amortization	1,700	1,772
Net barter income	(204)	(114)
Allowance for trade doubtful accounts	1,405	334
Deferred income taxes	(2,808)	(1,969)
Unearned revenue	723	132
Changes in operating assets and liabilities:		
Trade receivables	12,477	(636)
Prepaid expenses and other current assets	952	2,762
Other assets	(1,430)	(354)
Accounts payable and accrued expenses	(1,134)	(2,181)
Accrued interest	158	—
Other liabilities	(24)	30
Net cash provided by (used in) operating activities	3,362	(1,090)
Cash flows from investing activities:		
Purchases of property and equipment	(1,510)	(2,126)
Net proceeds (payments) towards FCC repack assets	582	(89)
Proceeds from the sale of property and equipment	15,004	—
Insurance proceeds received for damage to equipment	11	39
Net cash provided by (used in) investing activities	14,087	(2,176)
Cash flows from financing activities:	—	—
Net increase (decrease) in cash and cash equivalents	17,449	(3,266)
Cash and cash equivalents at beginning of period	20,856	22,468
Cash and cash equivalents at end of period	$ 38,305	$ 19,202
Supplemental cash flows information:		
Interest paid	$ 15,633	$ 15,623
Income tax paid	$ 37	$ 2,103

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 June 30, 2020 and December 31, 2019 and for the three- and six-month periods ended June 30, 2020 and 2019 have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial information. They do not include all information and notes required by U.S. GAAP for complete financial statements. These unaudited condensed consolidated financial statements should be read in conjunction with our consolidated financial statements as of, and for the fiscal year ended December 31, 2019, included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2019 as filed by the Company on March 30, 2020 (the "Annual Report"). Our critical accounting policies are described in "Part 2, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations — Critical Accounting Policies" of our Annual Report and our significant accounting policies are described in "Part 4, Item 15. Exhibits and Financial Statement Schedules — Notes to Consolidated Financial Statements — Summary of Significant Accounting Policies and Related Matters" of our Annual Report. In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments, which are all of a normal and recurring nature, necessary for a fair presentation of the results of the interim periods. Additionally, we evaluated subsequent events after the balance sheet date of June 30, 2020 through the date the financial statements are available to be issued. The results of operations for the six-months ended June 30, 2020 are not necessarily indicative of the results for the entire year ending December 31, 2020, or for any other future interim or annual periods.

Our consolidated financial statements have been prepared assuming we will continue as a going-concern, and do not include any 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 June 30, 2020 and December 31, 2019, 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 7 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 9, 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, as discussed in Note 10. 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 $1.0 million and $2.7 million, respectively, for the three- and six-months ended June 30, 2020 of recapitalization costs, primarily due to professional fees 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's 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 unexpected crisis such as the recent outbreak of the novel coronavirus disease known as COVID-19 ("COVID-19") negatively impacts our business, financial position, results of operations, liquidity 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.

Impact of the COVID -19 Pandemic

In March 2020, the World Health Organization declared the outbreak of COVID-19 a global pandemic. The responses by federal, state and local governments to restrict public gatherings and travel rapidly grew to include stay-at-home orders, school closures and mandatory restrictions on non-essential businesses and services that has adversely affected workforces, economies, and financial markets resulting in a significant economic downturn. The COVID-19 pandemic has resulted in the temporary disruptions of many of the Company's advertisers' businesses thereby impacting the Company's core source of revenue, which has had a material impact on its operations and financial condition. The impact of COVID-19 on the capital markets could also impact the Company's ability and cost to obtain necessary financing. Many advertisers have reduced or ceased their advertising spend due to the outbreak and stay at home orders which have temporarily shut many businesses down.

While this disruption is currently expected to be temporary, there is considerable uncertainty around the duration. The Company is actively monitoring the COVID-19 situation and its impact on the markets it serves. The Company is taking reasonable precautionary measures as directed by health authorities and local, state and national governments. Due to continuing uncertainties regarding the COVID-19 pandemic, it is impossible to predict the total impact that the pandemic will have on the Company's business. If public and private entities continue to implement restrictive measures, the material adverse effect on the Company's business, results of operations, financial condition, liquidity and cash flows could continue.

The Company has initiated the following strategies to reduce expenses and preserve cash:

- limiting capital expenditures;
- reduced content production;
- reduced advertising and marketing;
- reduced discretionary spending;
- reduced travel and entertainment to only essential business needs;
- furloughing certain employees;
- reducing salaries;
- deregistering of securities; and
- requesting discounts from vendors and/or payment plans.

To the extent the business disruption continues for an extended period, additional cost management actions will be considered to protect the Company's long-term financial health and ensure its ability to continue serving its viewers, listeners and advertisers.

Since March, most of the Company's employees have been working from home, with only certain essential employees working on site. For employees working at the Company's facilities, it has instituted social distancing protocols, increased the level of cleaning and sanitizing and undertaken other actions to make its facilities safer. The Company is generally following the requirements and protocols published by the U.S. Centers for Disease Control and the World Health Organization, and state and local governments. As of the date of these financial statements, the Company does not believe its work from home protocol has adversely impacted its internal controls, financial reporting systems or its operations.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") was signed into law. The CARES Act provides opportunities for additional liquidity, loan guarantees, and other government programs to support companies affected by the COVID-19 pandemic and their employees. The CARES Act allocated $349 billion to the Paycheck Protection Program (the "PPP"). An additional $310 billion was allocated to the PPP with the enactment of the Paycheck Protection Program and Healthcare Enhancement Act ("CARES 2.0") on April 21, 2020. Subsequently, on June 5, 2020, the Paycheck Protection Flexibility Act of 2020 ("Flexibility Act") was signed into law, amending the CARES Act. Based on the Company's analysis of the CARES Act, the benefits it has already taken advantage of or expects to recognize include:

- applying for and receiving an unsecured loan in the amount of approximately $6.5 million pursuant to and funded by the U.S. Paycheck Protection Program (the "PPP") to cover certain payroll, benefit, rent and utility expenses during the second quarter of 2020.

Given the uncertainty in the duration of the COVID-19 pandemic, the Company applied for and on April 15, 2020 received an unsecured PPP Loan in the amount of $6,478,800 in order to avoid near term layoffs and to support the Company's ongoing operations which is providing vital information and entertainment to its Latino communities. The Company intends to apply for forgiveness of the PPP Loan and believes its application was completed in good faith, the proceeds were used to support the Company's ongoing operations as intended and it met all the criteria for forgiveness. As such, the Company has accounted for the PPP Loan under International Accounting Standard 20 *Accounting for Government Grants and Disclosure of Government Assistance* ("IAS 20") since in substance the PPP Loan is a grant that is expected to be forgiven as it has used the proceeds to maintain employment and compensation levels and pay benefits, rent and utilities.

Since the Company's PPP Loan is greater than $2 million it will be subject to a review by the Small Business Administration for compliance with the PPP program requirements. If all or a portion of the PPP Loan is not forgiven, all or the remaining portion will be for a term of two years but can be prepaid at any time prior to maturity without any prepayment penalties. The annual interest rate on the PPP Loan is 1.0% and no payments of principal or interest are due until the date that the Small Business Administration remits the loan forgiveness amount to our lender, provided that the Company submits its loan forgiveness application to our lender within ten months following the last day of the applicable covered period.

The Company incurred eligible technical and programming, selling and administrative, and corporate payroll related expenses in excess of $6.5 million during the three- and six-month periods ended June 30, 2020. In accordance with IAS 20 and because there is reasonable assurance the forgiveness conditions will be met, the Company recorded the $6.5 million earnings impact on a systematic basis over the period in which the Company recognized as expenses the related costs for which the PPP Loan was intended to compensate. The Company recognized $6.5 million as a reduction of payroll expenses during the three- and six-month periods ended June 30, 2020 within operating income on its consolidated statements of operations. The PPP proceeds of $5.1 million, $0.8 million and $0.6 million were included as offsets to radio, television and corporate expenses, respectively. Additionally, during the six months ended June 30, 2020, the Company recognized the $6.5 million cash impact of the PPP loan within cash flows from operations on its consolidated statement of cash flows as the nature of the expenses for which the loan was used are operational in nature.

- relaxation of interest expense deduction limitation for income tax purposes. The limitation on interest increases from 30% to 50% for 2019 and 2020. This results in an expected benefit relating to 2019 in the amount of $2.8 million. The Company also expects to deduct additional interest in 2020 as a result of this legislation.

The Company continues to review and consider any available potential benefit under the CARES Act for which it may qualify. The Company cannot predict the manner in which such benefits or any of the other benefits described herein will be allocated or administered and it cannot assure you that it will be able to access such benefits in a timely manner or at all. If the U.S. government or any other governmental authority agrees to provide such aid under the CARES Act or any other crisis relief assistance it may impose certain requirements on the recipients of the aid, including restrictions on executive officer compensation, dividends, prepayment of debt, limitations on debt and other similar restrictions that will apply for a period of time after the aid is repaid or redeemed in full.

Use of Estimates

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

We assessed these aforementioned estimates and judgments utilizing information reasonably available to us and considering the future impacts of the COVID-19 pandemic and the declining performance for total market revenues in our radio and television markets. Actual results could differ from these estimates.

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

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 six-months ended June 30, 2020 and 2019 (in thousands):

	Three-Months Ended June 30,		Six-Months Ended June 30,	
	2020	**2019**	**2020**	**2019**
Local, national, digital and network	$ 15,768	$ 38,018	$ 47,315	$ 69,475
Special events	—	621	6,429	7,714
Barter	1,248	2,142	2,893	3,980
Other	677	1,639	1,782	3,155
Gross revenue	17,693	42,420	58,419	84,324
Less: Agency commissions and other	2,165	5,489	6,616	10,038
Net revenue	$ 15,528	$ 36,931	$ 51,803	$ 74,286

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 June 30, 2020 and 2019, barter revenue of $1.2 million and $2.1 million, respectively, was offset by barter expense of $1.1 million and $1.9 million, respectively.

For the six-months ended June 30, 2020 and 2019, barter revenue of $2.9 million and $4.0 million, respectively, was offset by barter expense of $2.7 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 June 30, 2020 there were no significant 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 six-months ended June 30, 2020, that was included in the unearned revenue balances at the beginning of the period. During the three-months ended June 30, 2020, there were $0.1 million of special events revenue recognized that were included in the unearned balances at the beginning of period and $0.3 million of special events revenue recognized during the six-months ended June 30, 2020 that were included in the unearned balances at the beginning of period. During the three-months ended June 30, 2020 barter revenue recognized that were included in the unearned revenue balances at the beginning of the period were not significant and $0.1 million of barter revenue was recognized during the six-months ended June 30, 2020, that

was included in the unearned revenue balances at the beginning of the period. Other revenue recognized during the three- and six-months ended June 30, 2020 that were included in unearned revenue balances at the beginning of the period were not significant. At June 30, 2020 there was $0.6 million of variable consideration in the form of agency based volume discounts accrued as contract liabilities within accrued expenses as compared to$2.3 million and $2.0 million for the quarter-ended March 31, 2020 and the year-ended December 31, 2019, respectively. Variable consideration in the form of agency based volume discounts of $0.1 million and $0.4 million were recognized and recorded as contract liabilities within accrued expenses during the three- and six-months ended June 30, 2020, respectively.

3. Basic and Diluted Net Loss Per Common Share

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

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

The following tables set forth the computation of basic and diluted net loss available to stockholders for the three- and six-month periods ended June 30, 2020 and 2019 (in thousands):

	Three-Months Ended June 30,					
	2020			2019		
	Class A	Class B	Series C	Class A	Class B	Series C
Basic and diluted net loss per share:						
Numerator						
Allocation of undistributed losses	$ (5,875)	(3,241)	(1,052)	$(1,022)	(564)	(183)
Denominator						
Number of shares used in basic computation	4,242	2,340	760	4,242	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	4,242	2,340	760
Basic and diluted net loss per share	$ (1.38)	(1.38)	(1.38)	$ (0.24)	(0.24)	(0.24)
Common stock equivalents excluded from calculation of diluted net loss per share as the effect would have been anti-dilutive:	375	—	—	445	—	—

	Six-Months Ended June 30,					
	2020			2019		
	Class A	Class B	Series C	Class A	Class B	Series C
Basic and diluted net loss per share:						
Numerator						
Allocation of undistributed losses	$ (14,153)	$(7,809)	$(2,536)	$(3,294)	$(1,817)	$ (590)
Denominator						
Number of shares used in basic computation	4,242	2,340	760	4,242	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	4,242	2,340	760
Basic and diluted net loss per share	$ (3.34)	$ (3.34)	$ (3.34)	$ (0.78)	$ (0.78)	$ (0.78)
Common stock equivalents excluded from calculation of diluted net loss per share as the effect would have been anti-dilutive:	375	—	—	445	—	—

4. Stockholders’ Deficit

The changes in stockholders' deficit for the three- and six-month periods ended June 30, 2020 and 2019 are as follows:

	Three-Months Ended June 30,		Six-Months Ended June 30,	
	2020	2019	2020	2019
Beginning balance	$ (94,625)	$ (83,311)	$ (80,297)	$ (79,379)
Net loss	(10,168)	(1,769)	(24,498)	(5,701)
Stock-based compensation	1	7	3	7
Ending balance	$ (104,792)	$ (85,073)	$ (104,792)	$ (85,073)

5. 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 June 30,		Six-Months Ended June 30,	
	2020	2019	2020	2019
Net revenue:				
Radio	$ 12,706	$ 32,992	$ 45,239	$ 67,071
Television	2,822	3,939	6,564	7,215
Consolidated	$ 15,528	$ 36,931	$ 51,803	$ 74,286
Engineering and programming expenses:				
Radio	$ 2,937	$ 5,201	$ 8,545	$ 10,682
Television	952	1,855	3,018	3,405
Consolidated	$ 3,889	$ 7,056	$ 11,563	$ 14,087
Selling, general and administrative expenses:				
Radio	$ 7,387	$ 13,177	$ 24,055	$ 30,843
Television	959	1,733	2,532	3,321
Consolidated	$ 8,346	$ 14,910	$ 26,587	$ 34,164
Corporate expenses:	$ 1,651	$ 2,798	$ 4,475	$ 5,549
Depreciation and amortization:				
Radio	$ 447	$ 398	$ 887	$ 774
Television	344	450	693	894
Corporate	63	51	120	104
Consolidated	$ 854	$ 899	$ 1,700	$ 1,772
Loss (gain) on disposal of assets, net of disposal costs:				
Radio	$ 9	$ —	$ 1	$ —
Television	—	—	(3,178)	—
Corporate	—	—	—	—
Consolidated	$ 9	$ —	$ (3,177)	$ —
Recapitalization costs:				
Radio	$ —	$ —	$ —	$ —
Television	—	—	—	—
Corporate	1,011	1,444	2,695	3,374
Consolidated	$ 1,011	$ 1,444	$ 2,695	$ 3,374
Executive severance expenses				
Radio	$ —	$ —	$ —	$ —
Television	—	—	—	—
Corporate	—	1,844	—	1,844
Consolidated	$ —	$ 1,844	$ —	$ 1,844
Impairment charges:				
Radio	$ 249	$ —	$ 14,352	$ —
Television	—	—	—	—
Corporate	—	—	—	—
Consolidated	$ 249	$ —	$ 14,352	$ —
Other operating income:				
Radio	$ (10)	$ (3)	$ (10)	$ (56)
Television	—	—	—	—
Corporate	—	—	—	—
Consolidated	$ (10)	$ (3)	$ (10)	$ (56)
Operating (loss) income:				
Radio	$ 1,687	$ 14,219	$ (2,591)	$ 24,828
Television	567	(99)	3,499	(405)
Corporate	(2,725)	(6,137)	(7,290)	(10,871)
Consolidated	$ (471)	$ 7,983	$ (6,382)	$ 13,552

	Three-Months Ended June 30,		Six-Months Ended June 30,	
	2020	2019	2020	2019
Capital expenditures:				
Radio	$ 520	$ 416	$ 1,083	$ 1,026
Television	65	394	238	799
Corporate	56	143	189	301
Consolidated	$ 641	$ 953	$ 1,510	$ 2,126

	June 30, 2020	December 31, 2019
Total Assets:		
Radio	$ 397,745	$ 407,633
Television	44,168	58,465
Corporate	2,685	2,946
Consolidated	$ 444,598	$ 469,044

6. 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. Due to the continued pre-tax operating losses reported through the second quarter of 2020, management has not changed its valuation allowance position as of June 30, 2020 from December 31, 2019.

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 the CARES ACT, and other changes in the valuation allowance. The CARES ACT interest limitation increased from 30% to 50% for 2019 and 2020. This results in an expected benefit relating to 2019 in the amount of $2.8 million. The Company is also expecting to deduct additional interest in 2020 as a result of this legislation.

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 June 30, 2020 and December 31, 2019.

7. 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 and for a declaratory judgment regarding the validity of a provision of the 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 (or approximately $189.9 million as of June 30, 2020, as well as unspecified money damages and a declaration that Section 10.4 of the Charter is invalid. This is the fourth lawsuit filed against us by holders or purported holders of our Series B preferred stock, the first three of which we successfully challenged and won. We believe these claims are without merit, and we intend to defend ourselves vigorously. 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 the Company's 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 September 24, 2019, we filed counterclaims in this matter claiming that certain of the plaintiffs are not valid holders of Series B Preferred stock because their purported purchases were attempted in violation of the Charter and were therefore void as a legal matter by operation of the Charter. On December 18, 2019, we filed a motion for summary judgment against the affected plaintiffs with respect to this issue. On March 20, 2020, we filed a motion to dismiss the Preferred Holder Complaint for failure to prosecute. Our motions for summary judgment and to dismiss remain pending before the court.

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 $1,993,624 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 $635,000, based upon our current best estimate of probable loss, was charged to operations in the second quarter of 2016. However, if the settlement offer is not accepted by the jurisdiction, the amount of the ultimate loss to the Company, if any, may equal the entire amount of the Assessment sought by the taxing jurisdiction.

8. 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	June 30, 2020 Carrying Amount	June 30, 2020 Fair Value	December 31, 2019 Carrying Amount	December 31, 2019 Fair Value
12.5% Senior Secured Notes due 2017 (note 9)	Level 2	$ 249.9	236.3	$ 249.9	263.5
10 3/4% Series B cumulative exchangeable redeemable preferred stock (note 10)	Level 3	189.9	63.7	185.0	66.0

9. 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 June 30, 2020, there is $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. We continue to pay interest on the Notes at their current rate of 12.5% per year on a monthly basis. See Note 1 elsewhere in these financial statements for additional detail regarding our recapitalization 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 (as defined by the Indenture) for our television segment for the most recent twelve-month period ending June 30, 2020.

Collateral and Ranking

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

The Indenture permits us, under specified circumstances, to incur additional debt; however, the occurrence and continuance of the Voting Rights Triggering Event (as defined in Note 10 of the Notes to the Unaudited Condensed Consolidated Financial Statements) currently prevents us from incurring any such additional debt.

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

Covenants and Other Matters

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

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

10. 10 3/4% 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 10 3/4% Series A cumulative exchangeable redeemable preferred stock, par value $0.01 per share, with a liquidation preference of $1,000 per share (the "Series A preferred stock"), without a specified maturity date. The gross proceeds from the issuance of the Series A preferred stock amounted to $75.0 million.

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

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 7, 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 persons, we were required to take immediate remedial action in order to ensure that any violations of the Communications Act and our Charter resulting from that ownership did not adversely affect our FCC broadcast licenses and ability to continue our business operations. Accordingly, on November 28, 2017, consistent with our obligations and authority provided to us under the Communications Act and by Article X of our Charter, we notified holders of our Series B preferred stock that we were suspending all rights, effective immediately, of the holders of the Series B preferred stock, other than their right to transfer their shares to a citizen of the United States. Such suspension of rights was meant from the outset to be a temporary and reasonable measure, intended to elicit the information necessary to determine which Series B preferred stock sales were proper under the Charter. The Company pledged to restore the suspended rights to each shareholder that demonstrated it was neither an alien nor a

representative of an alien or upon a showing that its ownership of Series B preferred stock (including stakes held by any non-U.S. entities) complies with Section 310(b) of the Communications Act and the Charter.

Additionally, on November 13, 2017, the Company filed a notification with the FCC to apprise the FCC of the possible non-compliance with the Communications Act's limits on foreign ownership. On December 4, 2017, the Company also filed a petition with the FCC for declaratory ruling (the "Petition") with respect to the potential excess foreign ownership. The Company filed the Petition not because it had concluded that an affirmative FCC public interest ruling regarding recognized foreign ownership was required, but at the suggestion of FCC staff to ensure the Company had prophylactically availed itself of the "safe harbor" protections of Section 1.5004(f)(4) of the FCC's Rules, in the event such a declaratory ruling ultimately proved necessary. This suggestion came after the Company had previously notified the FCC of a possible Section 310(b) foreign ownership issue triggered by the filing of the Preferred Holder Complaint. The FCC responded to the Petition by sending a letter to the Company detailing the information the FCC would need regarding the identities and nature of the purported foreign ownership of the Series B preferred stock to make a determination regarding the Petition and establishing a deadline for the disclosure of that information. The purported Series B preferred stockholders were therefore required to provide to the Company sufficient information about the extent and nature of their foreign ownership to enable the Company to supplement Petition with this additional information. On March 23, 2018, counsel for the purported holders of most of the Series B preferred stock filed a letter with the FCC supplying a significant portion of the information requested. The Company reviewed this information in order to determine whether it was complete, true and correct, as required by the FCC's rules, and requested some additional information from the Series B preferred stockholders. The purported Series B preferred stockholders did not provide any additional information regarding the timing of their alleged purchases of Series B preferred stock until December 5, 2018. On that date, such stockholders filed responses to the Company's interrogatories in the Series B Preferred Stock Litigation. These responses contained a significant portion of the pending information that was originally solicited on November 2017 and January 2018, respectively. The new information mainly consisted of the trading information in the Series B preferred stock, including dates of acquisition, the number of shares purportedly acquired in each transaction and, to the extent available, seller information. On December 6, 2018, the Company received a letter from the Enforcement Bureau of the Investigations and Hearings Division (the "Bureau") of the FCC advising the Company that it was under investigation for potential violations of Section 310(b) of the Communications Act related to excess foreign ownership of broadcast stations. As part of its investigation, the Bureau requested of the Company detailed information and supporting documentation about the identities of the Series B preferred stockholders, the potential for a foreign ownership violation, the dates that the Company became aware of the situation, and the steps it took to address the situation. The Company timely filed our response to the Bureau's letter of inquiry on February 8, 2019. On May 6, 2020, the Bureau informed the Company that it is no longer pursuing its investigation.

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

As stated above, the Company takes the position that certain of the purported non-U.S. preferred stockholders do not currently hold valid equity interests in the Company, with the result that there is no foreign ownership excess. For this reason, the Company did not claim in its Petition or any supplement thereto that it would be in the public interest for the relevant entities to hold aggregate interests exceeding the 25 percent foreign ownership benchmark. As stated in the original Petition, the Company then recognized that its showing "is not yet complete with respect to the FCC's ability to render a decision regarding the … public interest inquiry." Because the share transfers that gave rise to some or all of the Series B preferred stock ownership claims of several purported non-U.S. preferred stockholders are invalid, there would be no need for such a showing unless a court first determines that the suspect transactions must be honored. Accordingly, both the Company and the purported Series B preferred stockholders have suggested that the FCC should consider simply holding the Petition in abeyance until the Series B Preferred Stock Litigation is resolved. On May 7, 2020, the Company notified the FCC that it was withdrawing the Petition. On July 28, 2020 the FCC issued an order dismissing the Petition.

As of the date of these financial statements, the Company believes that there remain genuine questions regarding valid ownership, or good title, to the Series B preferred stock by these foreign investors. As a result, we intend to remain vigilant regarding compliance with the Communications Act and our Charter and will continue to address these questions in the pending Chancery Court action.

Quarterly Dividends

Under the terms of our Series B preferred stock, the holders of the outstanding shares of the Series B preferred stock are entitled to receive, when, as and if declared by the Board of Directors out of funds of the Company legally available therefor, dividends on the

Series B preferred stock at a rate of 10 ¾% per year, of the $1,000 liquidation preference per share. All dividends are cumulative, whether or not earned or declared, and are payable quarterly in arrears on specified dividend payment dates. While the Voting Rights Triggering Event continues, we cannot pay dividends on the Series B preferred stock without causing a breach of covenants under the Indenture governing our Notes.

As of June 30, 2020, the aggregate cumulative unpaid dividends on the outstanding shares of the Series B preferred stock was approximately $99.4 million, which is accrued on our condensed consolidated balance sheet as 10 ¾% Series B cumulative exchangeable redeemable preferred stock.

Accounting Treatment of the Preferred Stock

The Series B preferred stock will be measured at subsequent reporting dates at the amount of cash that would be paid under the conditions specified in the contract, as if the settlement occurred at the reporting date, recognizing the resulting change in that amount from the previous reporting date as interest expense. Therefore, the 10 ¾% accruing quarterly dividends will be recorded as interest expense (i.e. "Dividends on Series B preferred stock classified as interest expense") as required by ASC 480. For the three-months ended June 30, 2020 and 2019, we recorded $2.4 million as dividends on Series B preferred stock classified as interest expense and $4.9 million for the six-months ended June 30, 2019 and 2018.

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

On January 21, 2020, the Company entered into an asset purchase agreement with KHOU-TV, Inc. to sell various assets related to our Houston, KTBU television operations for $15 million, exclusive of closing costs, and subsequently closed on the sale on March 23, 2020. The Company recognized a gain on the sale of the KTBU assets of $3.2 million. Although the Company has historically used net proceeds from the sale of assets, as described by the Indenture, to repay a portion of the Notes, as of August 31, 2020, the Company is in an ongoing discussion with the holders of our Notes regarding the uses and/or payment of these proceeds.

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

A summary of assets held for sale as of June 30, 2020 and December 31, 2019 is set forth below (in thousands):

	June 30, 2020	December 31, 2019
FCC broadcasting licenses	$ —	$ 10,432
Property and equipment, net	—	425
Operating lease right-of-use asset	—	1,617
Assets held for sale	—	12,474
Operating lease liabilities	—	54
Operating lease liabilities, net of current portion	—	1,456
Liabilities held for sale	$ —	$ 1,510

12. Impairment of FCC Broadcasting Licenses and Testing of Goodwill

The Company generally performs its annual impairment test of its indefinite-lived intangibles during the fourth quarter of the fiscal year. However, given the outbreak of the COVID-19 pandemic and the declining performance for total market revenues in the Company's radio and television markets, the Company determined that a triggering event had occurred and performed an interim impairment test as of March 31, 2020 of its FCC broadcasting radio licenses in New York, Los Angeles, Miami, Chicago, San Francisco and Puerto Rico, as well as its Miami and Puerto Rico FCC television broadcasting license.

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

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

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

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

The methodology used by the Company in determining its key estimates and assumptions, as of March 31, 2020, was applied consistently to the subject markets. Below are some of the key assumptions used in the Company's impairment assessment using significant unobservable inputs (Level 3 non-recurring fair value measure).

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

As a result of the first quarter interim impairment test, the Company determined that there was an impairment to its radio FCC broadcasting licenses in San Francisco, Chicago, Miami, New York and Puerto Rico, primarily due to the discount rate increase and lower industry advertising revenue growth projections in the subject markets due to COVID-19. The Company recorded a non-cash impairment loss of approximately $14.1 million that reduced the carrying value of such FCC broadcasting licenses as of March 31, 2020. At June 30, 2020, the Company reviewed its previous assumptions used at March 31, 2020 testing date, and determined there were no further triggering events identified subsequent to March 31, 2020.

Goodwill consists of the excess of the purchase price over the fair value of tangible and identifiable intangible net assets acquired in business combinations. ASC 350 requires us to test goodwill for impairment at least annually at the reporting unit level in lieu of being amortized. We have determined that we have two reporting units under ASC 350, *Radio and Television*. We currently only have goodwill in our radio reporting unit. We have aggregated our operating components (radio stations) into a single radio reporting unit based upon the similarity of their economic characteristics, including consideration of the requirements in FASB ASC 280, *Segment Reporting*, as required by ASC 350. Our evaluation includes consideration of factors such as regulatory environment, business model, gross margins, nature of services and the process for delivering these services.

The Company assesses qualitative factors to determine whether it is necessary to perform a quantitative assessment for its radio reporting unit. If the quantitative assessment is necessary, the Company will determine the fair value of its radio reporting unit. If the fair value of its radio reporting unit is less than the carrying amount, the Company will recognize an impairment charge for the amount by which the carrying amount exceeds the fair value. The loss recognized will not exceed the total amount of goodwill.

During the quarters-ended March 31, 2020 and June 30, 2020, we assessed qualitative factors and identified no further triggering event for impairment beyond the impact of the COVID-19 pandemic on the economy. We performed an interim impairment review of our goodwill and determined that there was no impairment of goodwill. As of June 30, 2020, the estimated enterprise value of our radio reporting unit exceeded its carrying value during our impairment testing by approximately 11.1%. When evaluating our estimated enterprise value, we utilized an income approach which uses assumptions and estimates which among others include the aggregated expected revenues and operating margins generated by our FCC broadcasting licenses (i.e. our stations) and use of a risk adjusted discount rate.

13. Subsequent Event

Deregistration of Securities

For the Company, as it is and has been for all companies, the global pandemic has provided need, reason and basis for the Company to reduce expenses and operate with utmost efficiency. With that continuing goal and objective, the decision of the Company to deregister the Company's Class A common stock, $0.0001 par value per share (the "Class A Common Stock") was driven by elimination of the significant costs and administrative burdens of preparing and filing current and periodic reports with the Securities and Exchange Commission (the "SEC"), the demands placed on management and the Company to comply with the requirements of the Exchange Act, and the low number of holders of the Common Stock of the Company. The Company believes the expected savings of more than $1.5 million per year outweigh the advantages of continuing to be an SEC reporting company.

In July 2020, the Company filed a Post-Effective Amendment (the "Post-Effective Amendment") to withdraw and remove from registration all shares of the Company's Class A Common Stock, which remained unissued and unsold under Registration Statement No. 333-144286 on Form S-8, registering the offer and sale of 3,500,000 shares of Class A Common Stock issuable pursuant to the Registrant's 2006 Omnibus Equity Compensation Plan (the "Registration Statement") filed by the Company with the Securities and Exchange Commission (the "SEC").

The 2006 Omnibus Equity Compensation Plan expired on July 17, 2016 and no further share-based awards can be granted under this plan.

The Company filed a Form 15 to terminate registration under Section 12(g) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and its duty to file reports under Sections 13 and 15(d) of the Exchange Act.

As a result, the Company has terminated any and all offerings of its securities pursuant to the Registration Statement. Accordingly, the Company hereby terminates the effectiveness of the Registration Statement and, in accordance with an undertaking made by the Registrant in Part II of the Registration Statement to remove from registration, by means of a post-effective amendment, any securities that had been registered for issuance but remain unsold at the termination of the offering, removes from registration any and all securities of the Registrant registered but unsold under the Registration Statement as of the termination of the offering.

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 300 affiliate radio stations serving 88 of the top 100 U.S. Hispanic markets, including 50 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 six-months ended June 30, 2020 and 2019, our radio revenue was generated primarily from the sale of local, national, digital and network advertising, and our radio segment generated 87% and 90% of our consolidated net revenue, respectively.

Our television stations and related affiliates operate under the "MegaTV" brand. We broadcast via our owned and operated television stations in South Florida 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 75 hours of original programming per week. For the six-months ended June 30, 2020 and 2019, our television revenue was generated primarily from the sale of local and national advertising and paid programming, and our television segment generated 13% and 10% of our consolidated net revenues, respectively.

As part of our operating business, we also maintain multiple Spanish and bilingual websites, including www.lamusica.com, 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 increase 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 7, Commitments and Contingencies, of the Notes to the Unaudited Condensed Consolidated Financial Statements of this Quarterly Reporting Package. The complaint filed by these investors revealed a purported foreign ownership of our Series B preferred stock, which we are actively addressing in the Chancery Court. 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.

Impact of the COVID-19 Pandemic

In March 2020, the World Health Organization declared the outbreak of COVID-19 a global pandemic. The responses by federal, state and local governments to restrict public gatherings and travel rapidly grew to include stay-at-home orders, school closures and mandatory restrictions on non-essential businesses and services that have adversely affected workforces, economies, and financial markets resulting in a significant economic downturn. The COVID-19 pandemic has resulted in the temporary disruptions of many of our advertisers' businesses thereby impacting our core source of revenue, which has had a material impact on our operations and financial condition. COVID-19's impact on the capital markets could also impact our ability and cost to obtain necessary financing.

While this disruption is currently expected to be temporary, there is considerable uncertainty around the duration. We are actively monitoring the COVID-19 situation and its impact in the markets we serve. We are taking reasonable precautionary measures as directed by health authorities and local, state and national governments. Due to continuing uncertainties regarding the COVID-19 pandemic, it is impossible to predict the total impact that the pandemic will have on our business. If public and private entities continue to implement restrictive measures, the material adverse effect on our business, results of operations, financial condition and cash flows could continue.

The Company has initiated the following strategies to reduce expenses and preserve cash:

- limiting capital expenditures;
- reduced content production;
- reduced advertising and marketing;
- reduced discretionary spending;
- reduced travel and entertainment to only essential business needs;
- furloughing certain employees;
- reducing salaries;
- deregistering of securities; and
- requesting discounts from vendors and/or payment plans.

To the extent the business disruption continues for an extended period, additional cost management actions will be considered to protect our long-term financial health and ensure our ability to continue serving our viewers, listeners and advertisers.

Since March, most of our employees have been working from home, with only certain essential employees working on site. For employees working at our facilities, we have instituted social distancing protocols, increased the level of cleaning and sanitizing and undertaken other actions to make our facilities safer. We are generally following the requirements and protocols published by the U.S. Centers for Disease Control and the World Health Organization, and state and local governments. As of the date of this filing, we do not believe our work from home protocol has adversely impacted our internal controls, financial reporting systems or our operations.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") was signed into law. The CARES Act provides opportunities for additional liquidity, loan guarantees, and other government programs to support companies affected by the COVID-19 pandemic and their employees. The CARES Act allocated $349 billion to the Paycheck Protection Program (the "PPP"). An additional $310 billion was allocated to the PPP with the enactment of the Paycheck Protection Program and Healthcare Enhancement Act ("CARES 2.0") on April 21, 2020. Subsequently, on June 5, 2020, the Paycheck Protection Flexibility Act of 2020 ("Flexibility Act") was signed into law, amending the CARES Act. Based on the Company's analysis of the CARES Act, the benefits it has already taken advantage of or expects to recognize include:

- applying for and received an unsecured loan in the amount of approximately $6.5 million pursuant to and funded by the U.S. Paycheck Protection Program (the "PPP") to cover certain payroll, benefit, rent and utility expenses during the second quarter of 2020.

  Given the uncertainty in the duration of the COVID-19 pandemic, the Company applied for and on April 15, 2020 received an unsecured PPP Loan in the amount of $6,478,800 in order to avoid near term layoffs and to support the Company's ongoing operations which is providing vital information and entertainment to its Latino communities. The Company intends to apply for forgiveness of the PPP Loan and believes its application was completed in good faith, the proceeds were used to support the Company's ongoing operations as intended and it met all the criteria for forgiveness. As such, the Company has accounted for the PPP Loan under International Accounting Standard 20 *Accounting for Government Grants and Disclosure of Government Assistance* ("IAS 20") since in substance the PPP

Loan is a grant that is expected to be forgiven as it has used the proceeds to maintain employment and compensation levels and pay benefits, rent and utilities.

Since the Company's PPP Loan is greater than $2 million it will be subject to a review by the Small Business Administration for compliance with the PPP program requirements. If all or a portion of the PPP Loan is not forgiven, all or the remaining portion will be for a term of two years but can be prepaid at any time prior to maturity without any prepayment penalties. The annual interest rate on the PPP Loan is 1.0% and no payments of principal or interest are due until the date that the Small Business Administration remits the loan forgiveness amount to our lender, provided that the Company submits its loan forgiveness application to our lender within ten months following the last day of the applicable covered period.

The Company incurred eligible technical and programming, selling and administrative, and corporate payroll related expenses in excess of $6.5 million during the three- and six-month periods ended June 30, 2020. In accordance with IAS 20 and because there is reasonable assurance the forgiveness conditions will be met, the Company recorded the $6.5 million earnings impact on a systematic basis over the period in which the Company recognized as expenses the related costs for which the PPP Loan was intended to compensate. The Company recognized $6.5 million as a reduction of payroll expenses during the three- and six-month periods ended June 30, 2020 within operating income on its consolidated statements of operations. The PPP proceeds of $5.1 million, $0.8 million and $0.6 million were included as offsets to radio, television and corporate expenses, respectively. Additionally, during the six months ended June 30, 2020, the Company recognized the $6.5 million cash impact of the PPP loan within cash flows from operations on its consolidated statement of cash flows as the nature of the expenses for which the loan was used are operational in nature.

- relaxation of interest expense deduction limitation for income tax purposes. The limitation on interest increases from 30% to 50% for 2019 and 2020. This results in an expected benefit relating to 2019 in the amount of $2.8 million. We expect to deduct additional interest in 2020 as a result of this legislation.

We continue to review and consider any available potential benefit under the CARES Act for which we may qualify. We cannot predict the manner in which such benefits or any of the other benefits described herein will be allocated or administered and we cannot assure you that we will be able to access such benefits in a timely manner or at all. If the U.S. government or any other governmental authority agrees to provide such aid under the CARES Act or any other crisis relief assistance it may impose certain requirements on the recipients of the aid, including restrictions on executive officer compensation, dividends, prepayment of debt, limitations on debt and other similar restrictions that will apply for a period of time after the aid is repaid or redeemed in full.

For more information, see "Item 1A. Risk Factors—The COVID-19 pandemic has adversely affected and could continue to adversely affect our business, financial position, results of operations, liquidity and cash flows" and "Item 1A. Risk Factors—Risks Related to Our Business—Cancellations, reductions, delays and seasonality in advertising could adversely affect our net revenues" 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 six-months ended June 30, 2020 and 2019, local and digital revenue comprised 61% and 65% 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 six-months ended June 30, 2020 and 2019, national and network revenue comprised 20% and 17% 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 each of the six-months ended June 30, 2020 and 2019, barter revenue comprised 5% of our gross revenues.
- *Special events revenue.* We generate special events revenue from ticket sales, as well as profit-sharing arrangements by producing or co-producing live concerts and events promoted by our radio and television stations. For the six-months ended June 30, 2020 and 2019, special events revenue comprised 11% and 9% of our gross revenues, respectively.
- *Other revenue.* We receive other ancillary revenue such as subscriber revenue paid to us by cable and satellite providers, rental income from renting available tower space or sub-channels and syndication revenue from licensing MegaTV content. For the six-months ended June 30, 2020 and 2019, other revenue comprised 3% and 4% of our gross revenues, respectively.

Operating Expenses Description and Factors

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

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

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

Comparison Analysis of the Operating Results for the Three-Months Ended June 30, 2020 and 2019

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

	Three-Months Ended June 30, 2020	Three-Months Ended June 30, 2019
Net revenue:		
Radio	$ 12,706	$ 32,992
Television	2,822	3,939
Consolidated	$ 15,528	$ 36,931
Engineering and programming expenses:		
Radio	$ 2,937	$ 5,201
Television	952	1,855
Consolidated	$ 3,889	$ 7,056
Selling, general and administrative expenses:		
Radio	$ 7,387	$ 13,177
Television	959	1,733
Consolidated	$ 8,346	$ 14,910
Corporate expenses:	$ 1,651	$ 2,798
Depreciation and amortization:		
Radio	$ 447	$ 398
Television	344	450
Corporate	63	51
Consolidated	$ 854	$ 899
Loss on disposal of assets, net of disposal costs:		
Radio	$ 9	$ —
Television	—	—
Corporate	—	—
Consolidated	$ 9	$ —
Recapitalization costs:		
Radio	$ —	$ —
Television	—	—
Corporate	1,011	1,444
Consolidated	$ 1,011	$ 1,444
Executive severance expenses		
Radio	$ —	$ —
Television	—	—
Corporate	—	1,844
Consolidated	$ —	$ 1,844
Impairment charges:		
Radio	$ 249	$ —
Television	—	—
Corporate	—	—
Consolidated	$ 249	$ —
Other operating income:		
Radio	$ (10)	$ (3)
Television	—	—
Corporate	—	—
Consolidated	$ (10)	$ (3)
Operating (loss) income:		
Radio	$ 1,687	$ 14,219
Television	567	(99)
Corporate	(2,725)	(6,137)
Consolidated	$ (471)	$ 7,983

The following summary table presents a comparison of our results of operations for the three-months ended June 30, 2020 and 2019 (in thousands). Various fluctuations in our results are discussed below. This section should be read in conjunction with our unaudited condensed consolidated financial statements and notes.

	Three-Months Ended June 30,	
	2020	2019
Net revenue	$ 15,528	$ 36,931
Engineering and programming expenses	3,889	7,056
Selling, general and administrative expenses	8,346	14,910
Corporate expenses	1,651	2,798
Depreciation and amortization	854	899
Loss on disposal of assets, net of disposal costs	9	—
Recapitalization costs	1,011	1,444
Executive severance expenses	—	1,844
Impairment charges	249	—
Other operating income	(10)	(3)
Operating (loss) income	$ (471)	$ 7,983
Interest expense, net	(7,915)	(7,805)
Dividends on Series B preferred stock classified as interest expense	(2,433)	(2,433)
Income tax benefit	(651)	(486)
Net loss	$ (10,168)	$ (1,769)

Overview

For the three months ended June 30, 2020, our radio and television segments were significantly impacted by the COVID-19 pandemic as advertising demand weaken and live events were postponed. We have and continue to implement cost savings strategies to align our operating expenses with the current market conditions. Additionally, we received $6.5 million of Paycheck Protection Program (the "PPP") proceeds that were directly used to offset and reduce employee related and other eligible costs. Refer to —Impact of the COVID-19 Pandemic, for further details.

Net Revenue

The decrease in our consolidated net revenues of $21.4 million or 58% was due to a net revenue decrease in both our radio and television segments. Radio and television segment revenue includes the negative impact on advertising demand and the postponement of live events due to the COVID-19 pandemic. Our radio segment net revenue decreased $20.3 million or 61% due to decreases in all advertising and special events revenue streams. Our television segment net revenue decreased $1.1 million or 28% due to decreases in all advertising revenue streams, including sub-channel rental and subscriber fees revenue.

Engineering and Programming Expenses

The decrease in our consolidated engineering and programming expenses of $3.2 million or 45% was due to a decrease in both our radio and television segments expenses. The radio segment expenses decrease of $2.3 million or 44% was primarily due to decreases in compensation expenses and music license fees. Our television segment expenses decrease of $0.9 million or 49% was primarily due to decreases in compensation, production costs and transmitter rental expenses. Consolidated engineering and programming related expenses of $2.3 million were directly offset and reduced through the use of PPP proceeds which paid for eligible costs. PPP proceeds of $1.8 million were used in radio and $0.5 million in television, respectively.

Selling, General and Administrative Expenses

The decrease in our consolidated selling, general and administrative expenses of $6.6 million or approximately 44% was due to a decrease in both our radio and television segments expenses. Our radio segment expenses decrease of $5.8 million or 44% was primarily due decreases in compensation, commissions, barter, professional fees and facilities expenses, partially offset by an increase in our allowance for doubtful accounts. Our television segment expenses decrease of $0.8 million or 45% was primarily due to decreases in compensation, professional fees, commissions and facilities expenses. Consolidated selling, general and administrative related expenses of $3.6 million were directly offset and reduced through the use of PPP proceeds which paid for eligible costs. PPP proceeds of $3.3 million were used in radio and $0.3 million in television, respectively.

Corporate Expenses

The decrease in corporate expenses of $1.1 million or 41% was primarily due to decreases in compensation and travel related expenses partially offset by an increase in D&O insurance expense. PPP proceeds of $0.6 million were used to offset and reduce corporate expenses.

Recapitalization Costs

The Company incurred $1.0 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. 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 decrease in executive severance expense is due to the Company having incurred $1.8 million of executive severance expenses in connection with the retirement and separation agreement with our former SEVP/CFO in May 2019.

Impairment Charges

The increase in impairment charges of $0.2 million was primarily due to having recognized an impairment charge, during the three-months ended June 30, 2020, when the Company abandoned the development of certain programming assets to conserve cash and reduce expenses.

Operating Income

The decrease in operating income of $8.5 million or 106% was primarily due to the reduction of revenue, resulting from the ongoing negative financial impact of COVID-19, partially offset by the reduction of operating expenses, which include the direct offset and reduction of $6.5 million of related expenses for which the PPP proceeds were used, and the elimination of executive severance expenses.

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

The income tax benefit of $0.7 million is primarily a result of an increase in deferred tax assets as a result of interest disallowance reduced by an increase in deferred tax liabilities relating to tax amortization on FCC Licenses.

Net Loss

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 Six-Months Ended June 30, 2020 and 2019

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

	Six-Months Ended June 30, 2020	Six-Months Ended June 30, 2019
Net revenue:		
Radio	$ 45,239	$ 67,071
Television	6,564	7,215
Consolidated	$ 51,803	$ 74,286
Engineering and programming expenses:		
Radio	$ 8,545	$ 10,682
Television	3,018	3,405
Consolidated	$ 11,563	$ 14,087
Selling, general and administrative expenses:		
Radio	$ 24,055	$ 30,843
Television	2,532	3,321
Consolidated	$ 26,587	$ 34,164
Corporate expenses:	$ 4,475	$ 5,549
Depreciation and amortization:		
Radio	$ 887	$ 774
Television	693	894
Corporate	120	104
Consolidated	$ 1,700	$ 1,772
(Gain) loss on the disposal of assets, net of disposal costs:		
Radio	$ 1	$ —
Television	(3,178)	—
Corporate	—	—
Consolidated	$ (3,177)	$ —
Recapitalization costs:		
Radio	$ —	$ —
Television	—	—
Corporate	2,695	3,374
Consolidated	$ 2,695	$ 3,374
Executive severance expenses		
Radio	$ —	$ —
Television	—	—
Corporate	—	1,844
Consolidated	$ —	$ 1,844
Impairment charges:		
Radio	$ 14,352	$ —
Television	—	—
Corporate	—	—
Consolidated	$ 14,352	$ —
Other operating income:		
Radio	$ (10)	$ (56)
Television	—	—
Corporate	—	—
Consolidated	$ (10)	$ (56)
Operating (loss) income:		
Radio	$ (2,591)	$ 24,828
Television	3,499	(405)
Corporate	(7,290)	(10,871)
Consolidated	$ (6,382)	$ 13,552

The following summary table presents a comparison of our results of operations for the six-months ended June 30, 2020 and 2019 (in thousands). Various fluctuations in our results are discussed below. This section should be read in conjunction with our unaudited condensed consolidated financial statements and notes.

	Six-Months Ended June 30,	
	2020	2019
Net revenue	$ 51,803	$ 74,286
Engineering and programming expenses	11,563	14,087
Selling, general and administrative expenses	26,587	34,164
Corporate expenses	4,475	5,549
Depreciation and amortization	1,700	1,772
Gain on disposal of assets, net of disposal costs	(3,177)	—
Recapitalization costs	2,695	3,374
Executive severance expenses	—	1,844
Impairment charges	14,352	—
Other operating income	(10)	(56)
Operating (loss) income	$ (6,382)	$ 13,552
Interest expense, net	(15,831)	(15,612)
Dividends on Series B preferred stock classified as interest expense	(4,867)	(4,867)
Income tax benefit	(2,582)	(1,226)
Net loss	$ (24,498)	$ (5,701)

Overview

For the six months ended June 30, 2020, our radio and television segments were significantly impacted by the COVID-19 pandemic as advertising demand weaken and live events were postponed. We have and continue to implement cost savings strategies to align our operating expenses with the current market conditions. Additionally, we received $6.5 million of Paycheck Protection Program (the "PPP") proceeds that were directly used to offset and reduce employee related and other eligible costs. Refer to —Impact of the COVID-19 Pandemic, for further details.

Net Revenue

The decrease in our consolidated net revenues of $22.5 million or 30% was due to a net revenue decrease in both our radio and television segments. Radio and television segment revenue includes the negative impact on advertising demand and the postponement of live events due to the COVID-19 pandemic. Our radio segment net revenue decreased $21.8 million or 33% due to decreases in all advertising and special events revenue streams. Our television segment net revenue decreased $0.7 million or 9% due to decreases in sub-channel rental, subscriber fees and digital revenue partially offset by increases in local, national and barter sales revenue.

Engineering and Programming Expenses

The decrease in our consolidated engineering and programming expenses of $2.5 million or 18% was due to a decrease in both our radio and television segment expenses. Our radio segment expenses decrease of $2.1 million or 20% was primarily due to the decreases in compensation expenses and music license fees partially offset by increases in transmitter rent. The television segment expenses decrease of $0.4 million or 11% was primarily due to decreases in compensation and transmitter rent expenses offset by an increase in production costs. Consolidated engineering and programming related expenses of $2.3 million were directly offset and reduced through the use of PPP proceeds which paid for eligible costs. PPP proceeds of $1.8 million were used in radio and $0.5 million in television, respectively.

Selling, General and Administrative Expenses

The decrease in our consolidated selling, general and administrative expenses of approximately $7.6 million or 22% was due to an expense decrease in both our radio and television segments expenses. Our radio segment expenses decrease of $6.8 million or 22% was primarily due to the decreases in compensation, commissions, barter, special events, advertising, professional fees and facilities expenses which were partially offset by an increase in allowance for doubtful accounts. Our television segment expenses decrease of $0.8 million or 24% was primarily due to the decreases in professional fees and commission expenses. Consolidated selling, general and administrative related expenses of $3.6 million were directly offset and reduced through the use of PPP proceeds which paid for eligible costs. PPP proceeds of $3.3 million were used in radio and $0.3 million in television, respectively.

Corporate Expenses

The decrease in corporate expenses of $1.1 million or 19% was primarily due to decreases in compensation and travel related expenses partially offset by an increase in D&O insurance expense. PPP proceeds of $0.6 million were used to offset and reduce corporate expenses.

Gain on Disposal of Assets, net of disposal costs

The gain on disposal of assets of $3.2 million was primarily related to the sale of our Houston television market's KTBU FCC license, certain transmission related fixed assets and an operating lease related to the transmission site, in March 2020.

Recapitalization Costs

The Company incurred $2.7 million of recapitalization costs, a decrease of $0.7 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 Reporting Package. 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 decrease in executive severance expense is due to the Company having incurred $1.8 million of executive severance expenses in connection with the retirement and separation agreement with our former SEVP/CFO in May 2019.

Impairment Charges

The increase in impairment charges in 2020 of $14.4 million was primarily due to having recognized impairment charges to our radio FCC broadcasting licenses in San Francisco, Chicago, Miami, New York and Puerto Rico and certain abandoned programming assets.

Operating Income

The decrease in operating income of $19.9 million or 147% was primarily due to decreases in net revenue and impairment charges, resulting from the ongoing negative financial impact of COVID-19, partially offset by the decreases in operating expenses, executive severance expenses and recognizing gains on the disposal of assets.

Interest Expense, net

The increase in interest expense of $0.2 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

The income tax benefit of $2.6 million is primarily a result of a reduction of the deferred tax liabilities reduction of the deferred tax liabilities due to the impairment of FCC licenses offset by a reduction in deferred tax assets relating to interest disallowance as a result of the passing of the CARES ACT.

Net Loss

The 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 June 30, 2020 and, as of the date of this Quarterly Reporting Package, 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 $189.9 million outstanding (comprised of approximately $90.5 million in liquidation preference and approximately $99.4 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, without the consent of the holders of the Series B preferred stock, 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 us 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 7. Commitments and Contingencies in the Notes to the financial statements contained in this Quarterly Reporting Package and under the heading “Our Continued Recapitalization and Restructuring Efforts” in our Annual Report.
- We had a working capital deficit of $392.3 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 $189.9 million, our adjusted working capital deficit totals $202.4 million.

In addition, our inability to repay the Notes at maturity and the temporary disruption to our core source of revenue due to the recent outbreak of the COVID-19 coronavirus has raised substantial doubt about our ability to continue as a going concern.

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, some of which may be exacerbated by the COVID-19 pandemic. 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 7, Commitments and Contingencies, of the Notes to the Unaudited Condensed Consolidated Financial Statements of this Quarterly Reporting Package.

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 June 30, 2020 and December 31, 2019, 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. Assumptions which underlie management’s beliefs with respect to operating activities include the following:

- the significant deterioration in economic conditions and demand for advertising within the broadcasting industry due to the COVID-19 pandemic is expected to be temporary;
- 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.

The Company's 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.

Given the uncertainty in the duration of the COVID-19 pandemic, the Company applied for and on April 15, 2020 received an unsecured PPP Loan in the amount of $6,478,800 in order to avoid near term layoffs and to support the Company's ongoing operations which is providing vital information and entertainment to its Latino communities. The Company believes its application was completed in good faith, the proceeds were used to support the Company's ongoing operations as intended and it met all the criteria for forgiveness. The Company intends to apply for forgiveness of the PPP Loan and has used the proceeds to maintain employment and compensation levels and pay benefits, rent and utilities. Since the Company's PPP Loan is greater than $2 million it will be subject to a review by the Small Business Administration for compliance with the PPP program requirements. If all or a portion of the PPP Loan is not forgiven, all or the remaining portion will be for a term of two years but can be prepaid at any time prior to maturity without any prepayment penalties. The annual interest rate on the PPP Loan is 1.0% and no payments of principal or interest are due until the date that the Small Business Administration remits the loan forgiveness amount to our lender, provided that we submit our loan forgiveness application to our lender within ten months following the last day of the applicable covered period. Refer to Note 1. Basis of Presentation—Impact of the COVID-19 Pandemic, of the Notes to the unaudited condensed consolidated financial statements.

12.5% Senior Secured Notes due 2017

As of June 30, 2020, 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 Reporting Package 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 June 30, 2020, we had outstanding approximately $90.5 million of Series B preferred stock due to the liquidation preference and accrued dividends of approximately $99.4 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.

Holders 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 10 to the unaudited condensed consolidated financial statements included elsewhere in this Quarterly Reporting Package, we report dividends on the Series B preferred stock as interest expense.

For more information regarding the Series B preferred stock, see Note 10 to the unaudited condensed consolidated financial statements included elsewhere in this Quarterly Reporting Package.

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.

Raul Alarcón, our Chief Executive Officer and the Chairman of our Board of Directors, is 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 June 30, 2020, we had 4,241,991 shares of Class A common stock outstanding.

Class B Common Stock

As of June 30, 2020, we had 2,340,353 shares of Class B common stock outstanding, which have ten votes per share. Mr. Alarcón has voting control over all but 350 shares of the Class B common stock.

Summary of Capital Resources

The following summary table presents a comparison of our capital resources for the six-months ended June 30, 2020 and 2019, with respect to certain key measures affecting our liquidity (in thousands). The changes set forth in the table are discussed below. This section should be read in conjunction with the Company's unaudited condensed consolidated financial statements and the notes thereto.

	Six-Months Ended June 30, 2020	Six-Months Ended June 30, 2019	Change $
Capital expenditures:			
Radio	$ 1,083	$ 1,026	57
Television	238	799	(561)
Corporate	189	301	(112)
Consolidated	$ 1,510	$ 2,126	(616)
Net cash flows provided by (used in) operating activities	$ 3,362	$ (1,090)	4,452
Net cash flows provided by (used in) investing activities	14,087	(2,176)	16,263
Net cash flows used in financing activities	—	—	—
Net increase (decrease) in cash and cash equivalents	$ 17,449	$ (3,266)	

Capital Expenditures

The decrease in our capital expenditures was primarily due to cost cutting and cash conservation efforts the Company initiated limiting capital expenditures to help offset the negative financial impact of the COVID-19 pandemic.

Net Cash Flows Provided by Operating Activities

Changes in our net cash flows provided by operating activities were primarily a result of trade receivables collected and the receipt of PPP proceeds used to offset employee costs.

Net Cash Flows Provided by (Used In) Investing Activities

Changes in our net cash provided by (used in) investing activities were primarily a result of having sold assets related to our Houston television station in March 2020.

Net Cash Flows from Financing Activities

There were no changes from our financing activities. Although the Company has historically used net proceeds from the sale of significant assets, as described by the Indenture, to repay a portion of the Notes, as of August 31, 2020, the Company is in an ongoing discussion with the holders of our Notes regarding the uses and/or payment of these proceeds.

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.

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.

These estimates require the use of judgment as future events and the effect of these events cannot be predicted with certainty. The estimates will change as new events occur, as more experience is acquired and as more information is obtained. We evaluate and update our assumptions and estimates on an ongoing basis and we may consult outside experts to assist as considered necessary.

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

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 six-months ended June 30, 2020.

New Accounting Policy – Paycheck Protection Program Loan

In June 2020, the American Institute of CPAs (the "AICPA") issued guidance on the different ways in which businesses can account for forgivable PPP Loans. The Company has accounted for the PPP Loan under IAS 20 as the Company believes it has met the eligibility criteria and that the PPP loan represents, in substance, a grant that is expected to be forgiven. During the three-and six-month periods ended June 30, 2020, in accordance with IAS 20, the Company has systematically recorded the $6.5 million earnings impact, over the period in which the Company recognized the expenses that the PPP Loan was intended to compensate, within operating income on its consolidated statements of operations. During the six months ended June 30, 2020, the Company also recognized the $6.5 million cash impact of the PPP Loan within its cash flows from operations on its consolidated statement of cash flows. Refer to Note 1. Basis of Presentation—Impact of the COVID-19 Pandemic, of the Notes to the unaudited condensed consolidated financial statements.

Special Note Regarding Forward-Looking Statements

This Quarterly Reporting Package 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. 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 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. Additional risks and uncertainties that we are not aware of or that we currently deem immaterial also may impair our business. If any of the following risks actually occur, our business, financial condition and operating results could be materially adversely affected, and actual results may differ materially depending on a variety of important factors, including, but not limited to the following: failure to repay our Notes has resulted in uncertainty in our restructuring efforts which in turn may lead us to seek protection under Chapter 11 of the U.S. Bankruptcy Code; we face several risks relating to the existence of the Voting Rights Triggering Event that include but are not limited to inability to invest, incur indebtedness or to refinance the Notes; the failure to repay our Notes and our obligations under our Series B preferred stock adversely affects our financial condition and raises substantial doubt about our ability to continue as a going concern; upon a change of control, we must offer to repurchase all of the Notes and our Series B preferred stock; we have not generated sufficient cash to repay our Notes and our liabilities under our Series B preferred stock, and we may be forced to take other actions to satisfy our obligations under our Notes and Series B preferred stock, which may not be successful; we are highly leveraged and our substantial level of indebtedness adversely affects our financial condition and prevents us from fulfilling our financial obligations; the terms of the Indenture and the Certificate of Designations for the Series B preferred stock restrict our current and future operations; we face several risks regarding the foreign ownership issue that include but are not limited to an order to divest, fines, denial of license renewal and/or spectrum license revocation; we have experienced net losses in the past and, to the extent that we experience net losses in the future, our ability to raise capital may be adversely affected; we face several risks relating to our NOL carry-forwards since they can become subject to limitations under Section 382 of the Internal Revenue Code of 1986 if we experience an ownership change as well as the provisions set forth in the Tax Cuts and Jobs Act; our industry is highly competitive, and we compete for advertising revenue with other broadcast stations, as well as other media, many operators of which have greater resources than we do, a large portion of our net revenue and operating income currently comes from our New York, Los Angeles and Miami markets, an economic downturn, increased competition or another significant negative event in any of these markets, including the recent outbreak of COVID-19, could reduce our revenues and results of operations more dramatically than other companies that do not depend as much on these markets; cancellations, reductions, delays and seasonality in advertising could adversely affect our net revenues; the success of our radio stations depends on the popularity and appeal of our content, which is difficult to predict; the success of our television operation depends upon our ability to attract viewers and advertisers to our broadcast television operation; the loss of distribution agreements could materially adversely affect our results of operations; our business is affected by natural catastrophes that can disrupt our operations, by causing failure or destruction of satellites and transmitter facilities that we depend upon to distribute our programming; we may incur property and other losses that are not adequately covered by insurance; we must respond to rapid changes in technology, content creation, services and standards in order to remain competitive; cybersecurity risks could affect our operations and adversely affect our business; our business is dependent upon the performance of key employees, on-air talent and program hosts. Cost increases in the retention of such employees may adversely affect our profits. Impairment of our goodwill and other intangible assets deemed to have indefinite useful lives can cause our net income or net loss to fluctuate significantly; piracy of our programming and other content, including digital and Internet piracy, may decrease revenue received from the exploitation of our programming and other content and adversely affect our business and profitability; damage to our brands or reputation could adversely affect our company; our business may be adversely affected by legal or governmental proceedings brought by or on behalf of our employees. Raúl Alarcón, the Chairman of our Board of Directors, Chief Executive Officer and President, has majority voting control of our common stock and 100% voting control of our Series C preferred stock and this control may discourage or influence certain types of transactions or strategic initiatives; because our stock currently trades below $5.00 per share, and is quoted on the OTCQB Venture Market, our stock is considered a "penny stock" which can adversely affect its liquidity. There may not be sufficient liquidity in the market for our securities in order for investors to sell their securities; the market price of our common stock may be volatile; changes in U.S. communications laws or other regulations may have an adverse effect on our business. Proposed legislation would require radio broadcasters to pay royalties to record labels and recording artists; the FCC vigorously enforces its indecency and other program content rules against the broadcast industry, which could have a material adverse effect on our business; our businesses depend upon licenses issued by the FCC, and if any of those licenses were not renewed or we were to be out of compliance with FCC regulations and policies, our business may be materially impaired; there is significant uncertainty

regarding the FCC's media ownership rules, and any changes to such rules could restrict our ability to acquire broadcast stations; we may be adversely affected by comprehensive tax reform; new or changing federal, state or international privacy legislation or regulation could hinder the growth of our internet business; COVID-19 will likely have a negative effect on our business, financial position, results of operations, liquidity or cash flows but it is difficult to predict that impact with certainty.

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