Quarterly Financial Reporting Package

For the period ended June 30, 2021

Spanish Broadcasting System, Inc.

Delaware
(State or other jurisdiction of incorporation or organization)

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

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

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

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

Transfer Agent
Broadridge Corporate Solutions, Inc.
51 Mercedes Way
Edgewood, New York 11717

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SPANISH BROADCASTING SYSTEM, INC. AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. B

Disaggregation of Revenue

The following table summarizes revenue from contracts with customers for the three- and six- months ended June 30, 2021 and 2020 (in thousands):

	Three-Months Ended June 30,		Six Months Ended June 30,	
	2021	**2020**	**2021**	**2020**
Local, national, digital and network	$ 39,841	$ 15,768	$ 66,419	$ 47,315
Special events	36	—	36	6,429
Barter	1,241	1,248	2,421	2,893
Other	704	677	1,410	1,782
Gross revenue	$ 41,822	$ 17,693	$ 70,286	$ 58,419
Less: Agency commissions and other	5,648	2,165	9,469	6,616
Net revenue	$ 36,174	$ 15,528	$ 60,817	$ 51,803

(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..17.9(a)4.2(ys)9.1(ifif is.

Transaction Price Allocated to the Remaining Performance Obligation

The Company has elected to use the optional exemption in ASC 606-10-50-14 regarding

	Class A		Class B		Series C		Class A		Class B		Series C
Basic net loss per share:												
Numerator												
Allocation of undistributed earnings	$	(2,857)	$	(1,548)	$	(503)	$	(14,153)	$	(7,809)	$	(2,536)
Denominator												
Number of shares used in per share computation (as converted)(7,986)(7,-63.7 65055 0.3827721et lomum())]TJ 0 o5 Td [(N)28(u)56(m)84(er)-11(at)34(9.51as)-5(co												

6. Operating Segments

We have two reportable segments: radio and television. The following summary table presents separate financial data for each of our operating segments (in thousands):

	Three-Months Ended June 30, 2021	Three-Months Ended June 30, 2020	Six-Months Ended June 30, 2021	Six-Months Ended June 30, 2020
Net revenue:				
Radio	$ 33,052	$ 12,706	$ 54,807	$ 45,239
Television	3,122	2,822	6,010	6,564
Consolidated	$ 36,174	$ 15,528	$ 60,817	$ 51,803
Engineering and programming expenses:				
Radio	$ 5,558	$ 2,937	$ 11,097	$ 8,545
Television	2,076	952	4,163	3,018
Consolidated	$ 7,634	$ 3,889	$ 15,260	$ 11,563
Selling, general and administrative expenses:				
Radio	$ 11,890	$ 7,387	$ 23,469	$ 24,055
Television	1,539	959	3,076	2,532
Consolidated	$ 13,429	$ 8,346	$ 26,545	$ 26,587
Corporate expenses:	$ 2,894	$ 1,651	$ 5,368	$ 4,475
Depreciation and amortization:				
Radio	$ 351	$ 447	$ 699	$ 887
Television	319	344	662	693
Corporate	99	63	201	120
Consolidated	$ 769	$ 854	$ 1,562	$ 1,700
(Gain) loss on the disposal of assets, net:				
Radio	$ —	$ 9	$ —	$ 1
Television	—	—	(198)	(3,178)
Corporate	—	—	—	—
Consolidated	$ —	$ 9	$ (198)	$ (3,177)
Recapitalization costs:				
Radio	$ —	$ —	$ —	$ —
Television	—	—	—	—
Corporate	—	1,011	420	2,695
Consolidated	$ —	$ 1,011	$ 420	$ 2,695
Impairment charges:				
Radio	$ —	$ 249	$ —	$ 14,352
Television	—	—	—	—
Corporate	—	—	—	—
Consolidated	$ —	$ 249	$ —	$ 14,352
Other operating expense (income):				
Radio	$ (1,164)	$ (10)	$ 17	$ (10)
Television	—	—	—	—
Corporate	(26)	—	(26)	—
Consolidated	$ (1,190)	$ (10)	$ (9)	$ (10)
Operating income (loss):				
Radio	$ 16,417	$ 1,687	$ 19,525	$ (2,591)
Television	(812)	567	(1,693)	3,499
Corporate	(2,967)	(2,725)	(5,963)	(7,290)
Consolidated	$ 12,638	$ (471)	$ 11,869	$ (6,382)

	Three-Months Ended June 30,		Six-Months Ended June 30,	
	2021	2020	2021	2020
Capital expenditures:				
Radio	$ 370	$ 520	$ 572	$ 1,083
Television	136	65	457	238
Corporate	68	56	379	189
Consolidated	$ 574	$ 641	$ 1,408	$ 1,510

	June 30, 2021	December 31, 2020
Total Assets:		
Radio	$ 391,381	$ 406,320
Television	39,953	41,283
Corporate	4,960	3,616
Consolidated	$ 436,294	$ 451,219

7. New $310 Million Senior Secured Notes Due 2026, New Revolving Credit Facility and 12.5% Senior Secured Notes Due 2017

a) New $ 310 million Senior Secured Notes Due 2026

On February 17, 2021, the Company completed its previously announced private offering of $310.0 million aggregate principal amount of its 9.75% Senior Secured Notes due 2026 (the “Notes”). Interest on the Notes accrues at the rate of 9.75% per annum and is payable semi-annually in arrears on March 1 and September 1 of each year, beginning on September 1, 2021. The Notes will mature on March 1, 2026, unless earlier redeemed or repurchased. We may redeem the Notes, in whole or in part, at any time prior to September 1, 2023 at a redemption price equal to 100% of the sum of the principal amount of the Notes, plus any other interest that is accrued and unpaid thereon to, but not including, the redemption date, plus the applicable “make-whole” premium. We may redeem the Notes, in whole or in part, at any time on or after September 1, 2023 at a redemption price equal to 100% of the sum of the principal amount of the Notes, plus any other interest that is accrued and unpaid thereon to, but not including, the redemption date, plus a premium declining over time. In addition, at any time prior to September 1, 2023, but not more than once during each 12-

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 on those shares to the date of repurchase. Under the terms of our Series B preferred stock, we were 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").

On February 5, 2021, the Company entered into the Series B Settlement Agreement and Series B Purchase Agreement with holders owning 85,265 shares, or 94.16%, of our Series B Preferred Stock (the "Selling Series B Preferred Holders"). Pursuant to the Series B Settlement Agreement, we, together with the Selling Series B Preferred Holders, agreed to fully resolve and settle all claims and causes of action arising out of, or related to, the Preferred Holder Complaint or the Series B Preferred Stock. We entered into the Series B Purchase Agreement with the Selling Series B Preferred Holders whereby we purchased from the Selling Series B Preferred Holders 85,265 shares of Series B Preferred Stock for: (i) their pro rata share of an aggregate cash purchase price of $60 million (pro rata share calculated based upon 90,548 shares of Series B Preferred Stock) and (ii) their pro rata share of 1,939,365 (adjusted for fractional shares) shares, or 19.99%, of our Class A Common Stock (pro rata share calculated based upon 85,265 shares of Series B Preferred Stock). We have reserved the 1,939,365 (adjusted for fractional shares) shares of Class A Common Stock and will issue to each Selling Series B Preferred Stockholder their pro rata shares subject to receipt of appropriate certifications and/or requisite regulatory approval. As of the quarter ended June 30, 2021, the Company has issued 455,458 shares of the reserved Class A common stock to various Settling Series B Preferred Holders in accordance with the terms and conditions of the Series B Purchase Agreement. With respect to the remaining 5.84%, or 5,283 shares, of Series B Preferred Stock, on March 18, 2021, we redeemed such shares of Series B Preferred Stock at a price equal to 100% of the liquidation preference plus all accumulated and unpaid dividends per share to, but excluding, the date of redemption in accordance with the Certificate of Designations.

As part of our dealings with the settling of Series B preferred holders and information they have disclosed to us, the Company was able to determine the foreign ownership percentage held by the Settling Series B Preferred Holders. During the quarter-ended June 30, 2021, the Company determined that it should petition the FCC for a ruling allowing for more than 25% of its common shares to be owned and/or voted by such non-U.S. entities prior to issuing new Class A common shares to these shareholders and has subsequently filed a Petition for Declaratory Ruling with the FCC requesting for up to 49.99% of its common shares to be owned and/or voted by such non-U.S. entities. The Company will not issue shares to foreign entities unless it has determined that such issuance of Class A common shares will comply with the regulations of the FCC or approval to exceed the statutory benchmark of the foreign ownership stake has been granted by the FCC.

Accounting Treatment of the Preferred Stock

The Series B preferred stock was 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 were recorded as interest expense (i.e., "Dividends on Series B preferred stock classified as interest expense") as required by ASC 480.

At December 31, 2020, a portion of the outstanding Series B preferred stock balance had been reclassified as a non

The Company has recognized a gain of $118.8 million on settlement with the Series B shareholders as an increase to additional paid in capital as the transaction was in essence a capital transaction with equity holders (both before and after the settlement). The Company analogized troubled debt restructuring accounting guidance to calculate the gain on the repurchased Series B preferred

10. 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. The estimated fair value of [illegible] current [illegible] in:

loan to be forgiven. As in the prior year, the Company has accounted for the PPP Loan under International Accounting Standard 20 *Accounting for Government Grants and Disclosure of Government Assistance* ("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 as it has used the proceeds to maintain employment and compensation levels and pay benefits and in accordance with the IAS 20 guidance.

The Company's Second Draw PPP Loan may 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 five 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. The company is in the process of applying for forgiveness of the loan.

The Company incurred eligible technical and programming, selling and administrative, and corporate payroll related expenses in excess of $2.0 million during the three- and six-month periods ended June 30, 2021. During the three- and six-month periods ended June 30, 2021, in accordance with IAS 20 and because there is reasonable assurance the forgiveness conditions will be met, the Company recorded, on a systematic basis, the PPP pr oa, th

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 some of the top 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 AIRE Radio Networks, which covers 95% of the coveted U.S. Hispanic market and reaches over 15 million listeners in an average week. AIRE Radio Networks is comprised of top-rated stations and shows attracting a broad range of quality listeners allowing advertisers to efficiently reach their target audience. AIRE Radio Networks has over 290 affiliate radio stations serving 80 of the top 100 U.S. Hispanic markets, including 47 of the top 50 U.S. Hispanic markets. For the six months ended June 30, 2021 and 2020, our radio revenue was generated primarily from the sale of local, national, network and digital advertising, and our radio segment generated 90% and 87% 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 and through programming and/or distribution agreements, including nationally on a subscriber basis, which allow us to serve markets representing over 6.9 million households, including over 3.0 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, news, 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 95 hours of original programming per week. For the six months ended June 30, 2021 and 2020, our television revenue was gene1rate]TJ 1[(ou)-7.7(v)-02 Tw [(Fo)-8.1(r)]TJ   0 Tc 0 T particularly Raúl Alarcón, Chairman of our Board of Directors and Chief Executive Officer, could have a material adverse effect on our business.

and various other non-broadcast related revenues. For the six months ended June 30, 2021 and 2020, other revenue comprised 2% and 3% of our gross revenues, respectively.

Operating Expenses Description and Factors

Our operating expenses consist primarily of

Comparison Analysis of the Operating Results for the Three- Months Ended June 30, 2021 and 2020

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

	Three-Months Ended June 30,	
	2021	2020
Net revenue:		
Radio	$ 33,052	$ 12,706
Television	3,122	2,822
Consolidated	$ 36,174	$ 15,528
Engineering and programming expenses:		
Radio	$ 5,558	$ 2,937
Television	2,076	952
Consolidated	$ 7,634	$ 3,889
Selling, general and administrative expenses:		
Radio	$ 11,890	$ 7,387
Television	1,539	959
Consolidated	$ 13,429	$ 8,346
Corporate expenses:	$ 2,894	$ 1,651
Depreciation and amortization:		
Radio	$ 351	$ 447
Television	319	344
Corporate	99	63
Consolidated	$ 769	$ 854
Loss on the disposal of assets, net:		
Radio	$ —	$ 9
Television	—	—
Corporate	—	—
Consolidated	$ —	$ 9
Recapitalization costs:		
Radio	$ —	$ —
Television	—	—
Corporate	—	1,011
Consolidated	$ —	$ 1,011
Impairment charges:		
Radio	$ —	$ 249
Television	—	—
Corporate	—	—
Consolidated	$ —	$ 249
Other operating (income) expense:		
Radio	$ (1,164)	$ (10)
Television	—	—
Corporate	(26)	—
Consolidated	$ (1,190)	$ (10)
Operating income (loss):		
Radio	$ 16,417	$ 1,687
Television	(812)	567
Corporate	(2,967)	(2,725)
Consolidated	$ 12,638	$ (471)

The following summary table presents a comparison of our operating results of operations for the three- months ended June 30, 2021 and 2020. Various fluctuations illustrated in the table are discussed below. This section should be read in conjunction with our consolidated financial statements and related notes.

	Three Months Ended June 30,	
	2021	2020
Net revenue	$ 36,174	$ 15,528
Engineering and programming expenses	7,634	3,889
Selling, general and administrative expenses	13,429	8,346
Corporate expenses	2,894	1,651
Depreciation and amortization	769	854
Loss on the disposal of assets	—	9
Recapitalization costs	—	1,011
Impairment charges	—	249
Other operating (income) expenses	(1,190)	(10)
Operating income (loss)	12,638	(471)
Interest expense	(7,686)	(7,915)
Dividends on Series B preferred stock classified as interest expense	—	(2,433)
Amortization of deferred financing costs	(476)	—
Income tax expense (benefit)	106	(651)
Net income (loss)	$ 4,370	$ (10,168)

Net Revenue

The increase in our consolidated net revenues of $20.7 million or 133% was due to increases in both our radio and television

Corporate Expenses

Corporate expenses increased $1.2 million or 75% primarily due to increases in

Comparison Analysis of the Operating Results for the Six- Months Ended June 30, 2021 and 2020

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

	2021	2020
Net revenue:		
Radio	$ 54,807	$ 45,239
Television	6,010	6,564
Consolidated	$ 60,817	$ 51,803
Engineering and programming expenses:		
Radio	11,097	

The following summary table presents a comparison of our results of operations for the six-months ended June 30, 2021 and 2020 (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.

Liquidity and Capital Resources

Historically, we have and will continue to evaluate strategic media acquisitions and/or dispositions and strive 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 and will continue to discuss potential acquisitions and/or dispositions and expansion of our content through media outlets from time to time in the ordinary course of business.

The Company applied for and on May 27, 202 received an unsecured Second Draw PPP Loan in the amount of $2,000,000 in order to avoid near term layoffs and to support the Company's ongoing operations which is providing vital information and entertainment to 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’s Second Draw PPP Loan may 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 five 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. The company is in the process of applying for forgiveness of the loan once the application for forgiveness opens. Refer to Note 12. Coronavirus Aid, Relief, and Economic Security Act (CARES Act), of the Notes to the unaudited condensed consolidated financial statements.

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 stockholders 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 stockB B

Special Note Regarding Forward-Looking Statements

This Financial 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, 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 ahed to i(o mniu97 ou)utc8/e," 5yg" "seeking"