
Year End Financial Reporting Package

For the year ended December 31, 202

Spanish Broadcasting System, Inc. and Subsidiaries

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

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Board of Directors of
Spanish Broadcasting System, Inc. and Subsidiaries
Miami, Florida

Opinion

We have audited the consolidated financial statements of Spanish Broadcasting System, Inc. and Subsidiaries which comprise the consolidated balance sheets as of December 31, 2021 and 2020, and the related consolidated statements of operations, stockholders' equity (deficit), and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position, results of operations, and cash flows of Spanish Broadcasting System, Inc. and Subsidiaries for the years ended December 31, 2021 and 2020, and the related notes to the financial statements.

- x Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- x Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Spanish Broadcasting System, Inc. and Subsidiaries' ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing

SPANISH BROADCASTING SYSTEM, INC.
 AND SUBSIDIARIES
 Consolidated Balance Sheets
 December 31, 2021 and 2020
 (In thousands, except share data)

	December 31, 2021	December 31, 2020
Assets		
Current assets:		
Cash and cash equivalents	\$ 16,243	\$ 28,178
Receivables:		
Trade	50,551	45,145
Barter	309	189
	50,860	45,334
Less: allowance for doubtful accounts	3,027	3,411
Net receivables	47,833	41,923
Prepaid expenses and other current assets	8,384	6,529
Total current assets	72,460	76,630
Property and equipment, net	21,324	21,651
FCC broadcasting licenses	297,179	297,179
Goodwill	32,806	32,806
Operating lease right-of-use assets		

SPANISH BROADCASTING SYSTEM, INC.
 AND SUBSIDIARIES
 Consolidated Statements of Changes in Stockholders' Equity (t)
 Years Ended December 31, 2021 and 2020
 (In thousands, except share data)

	Number of shares	Par value	Number of shares	Par value	Number of shares	Par value	Additional paid-in capital	Accumulated other comprehensive loss, net	Accumulated deficit	Total stockholders' equity (deficit)
Balance at December 31, 2019	380,000	\$ 4	4,241,991	\$ —	2,340,353	\$ —	\$ 4,262,201	\$ 4		

SPANISH BROADCASTING SYSTEM, INC.
AND SUBSIDIARIES
Consolidated Statements of Cash Flows
Years Ended December 31, 2021 and 2020
(In thousands)

	2021	2020
Cash flows from operating activities:		
Net income (loss)	\$ 1,731	\$ (25,119)
Adjustments to reconcile net income (loss) to net cash provided by (use) operating activities:		
Dividends on Series B preferred stock classified as interest expense	1,323	9,734
Loss (gain) on the disposal of assets, net of disposal costs	29	(3,316)
(Gain) loss on insurance proceeds received for damage to equipment	(205)	55
Impairment charges	—	14,352
Stock-based compensation	37	4
Depreciation and amortization	3,128	3,261
Net barter income	(130)	(264)
Provision for trade doubtful accounts	885	3,039
Amortization of deferred financing costs	1,670	—
Deferred income taxes	(2,369)	(1,655)
Unearned revenue-barter	152	709
Changes in operating assets and liabilities:		
Trade receivables	(6,747)	(5,500)
Prepaid expenses and other current assets	(6,851)	(4,681)
Other assets	1,318	1,598
Accounts payable and accrued expenses	6,574	(715)
Accrued interest	8,610	271
Other liabilities	(859)	628

SPANISH BROADCASTING SYSTEM, INC.
AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2021 and 2020

(1) Organization and Nature of Business

All references to “we”, “us”, “~~or~~”, “SBS”, “our Company”, or “the Company” in this report mean Spanish Broadcasting System, Inc., a Delaware corporation.

aggregated our operating components (radio stations) into a single radio reporting unit based upon the similarity of their economic characteristics. Our evaluation included consideration of factors, such as regulatory environment, business model, gross margin, nature of services and the process for delivering these services.

(m) Basic and Diluted Net Income (Loss) Per Common Share

Basic net income (loss) per common share was computed by dividing net income (loss) available to common stockholders by the weighted average number of shares of common stock and convertible preferred stock outstanding for each period presented. Diluted net income (loss) per common share is computed by giving effect to common stock equivalents as if they were outstanding for the entire period. The following table summarizes the net income (loss) applicable to common stockholders and the net income (loss) per common share for the years ended December 31, 2021 and 2020 (in thousands, except per share data):

	Class A	Class B	Series C	Class A	Class B	Series C
Basic net income (loss) per share:						
Numerator						
Allocation of undistributed earnings	\$ 1,029	\$ 530	\$ 172	\$ (14,512)	\$ (8,007)	\$ (2,600)
Denominator						
Number of shares used in per share computation (as converted)	4,545	2,340	760	4,242	2,340	760
Basic net income (loss) per share	\$ 0.23	\$ 0.23	\$ 0.23	\$ (3.42)	\$ (3.42)	\$ (3.42)
Diluted net income (loss) per share:						
Numerator						
Allocation of undistributed earnings	\$ 1,029	\$ 530	\$ 172	\$ (14,512)	\$ (8,007)	\$ (2,600)
Denominator						
Number of shares used in basic computation	4,545	2,340	760	4,242	2,340	760
Weighted-average impact of dilutive equity instruments	75	—	—	—	—	—
Number of shares used in per share computation (as converted)	4,620	2,340	760	4,242	2,340	760
Diluted net income (loss) per share	\$ 0.22	\$ 0.23	\$ 0.23	\$ (3.42)	\$ (3.42)	\$ (3.42)

the years ended December 31, 2021 and 2020 were reduced for estimated forfeitures. When estimating forfeitures, we consider voluntary termination behaviors, as well as trends of actual option forfeitures.

(p) Leasing (Operating Leases)

We analyze if contracts are leases or contain leases at inception. Our analysis includes determining whether the right to control the use of an identified asset for a period of time in exchange for consideration has been transferred to the Company. The lease is determined based on the noncancellable term specified in the agreement together with renewal periods which would provide the Company the option to extend the lease and it were reasonably certain that the Company would exercise that option, as well as that it is also reasonably certain that the lessor would not preclude the Company from

Disaggregation of Revenue

The following table summarizes revenue from contracts with customers for the years ended 2021 and 2020 (in thousands):

	Twelve Months Ended December 31,	
	2021	2020
Local, national, digital and network	\$ 158,544	\$ 124,461
Special events	647	6,446
Barter	6,470	5,695
Other	2,720	3,396
Gross revenue	\$ 168,381	\$ 139,998
Less: Agency commissions	22,612	18,059
Net revenue	\$ 145,769	\$ 121,939

At December 31, 2021 and 2020, amounts reported in the Consolidated Balance Sheet are as follows (in thousands):

	2021	2020
Operating Leases:		
Operating lease right-of-use assets	\$ 19,770	\$ 20,509
Operating lease liabilities - current		
	1,075	824
Operating lease liabilities - net of current portion		
	20,624	21,023
Total operating lease liabilities	\$ 21,699	\$ 21,847
Other information:		
Operating cash flows from operating leases	\$ 3,544	\$ 2,632
Right-of-use assets obtained in exchange for new lease liabilities	\$ 815	\$ 4,213

(5) Property and Equipment, Net

Property and equipment, net consists of the following at December 31, 2021 and 2020 (in thousands):

	2021	2020	Estimated useful lives
Land	\$ 6,456	\$ 6,456	—
Building and building improvements	22,729	22,534	7–20 years
Tower and antenna systems	5,686	5,454	10 years
Studio and technical equipment	22,515	21,791	5–10 years
Furniture and fixtures	3,472	3,365	5–10 years
Transmitter equipment	8,739	8,435	10 years
Leasehold improvements	3,081	3,097	1–20 years
Computer equipment and software	11,526	10,679	3–5 years
Other	2,540	2,419	3–5 years
	86,744	84,230	
Less accumulated depreciation	(65,420)	(62,579)	
	\$ 21,324	\$ 21,651	

During the years ended December 31, 2021 and 2020 depreciation of property and equipment totaled \$3.1 million and \$3.3 million, respectively.

(6) Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses at December 31, 2021 and 2020 consist of the following (in thousands):

	2021	2020
Accounts payable – trade	\$ 2,293	\$ 1,851
Accrued compensation and commissions	10,491	6,570
Accrued professional fees	1,113	2,149
Accrued music license fees	1,041	852
Accrued rating service	1,547	1,566
Accrued rent, property and real estate taxes	583	1,102
Accrued income and franchise tax	3,456	342
Other accrued expenses	5,277	5,245
	25,801	19,677

(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

We used the net proceeds of this offering along with cash on hand to (i) repay the outstanding principal amount of the 2017 Notes, (ii) repurchase 85,265 shares of our Series B Preferred Stock pursuant to certain agreements entered with holders of 94.16

(8) 10 3/4% Series A and B Cumulative Exchangeable Redeemable Preferred Stock

On October 30, 2003, we partially financed the purchase of a radio station with proceeds from the sale, through a private placement, of 75,000 shares of our 10 3/4% Series A cumulative exchangeable redeemable preferred stock, par value \$0.01 per share, with a liquidation preference of \$1,000 per share (the "Series A preferred stock"), without a specified maturity date. The gross proceeds from the issuance of the Series A preferred stock amounted to \$75.0 million. On April 1, 2004, we exchanged 76,702 shares of 10 3/4% Series B cumulative exchangeable redeemable preferred stock, par value \$0.01 per share and liquidation preference of \$1,000 per share (the "Series B preferred stock"), for any and all shares of our outstanding shares of Series A preferred stock. On

(c) Share-Based Compensation Plans and Other Share Based Compensation

2006 Omnibus Equity Compensation Plan

In July 2006, we adopted an omnibus equity compensation plan (the "Omnibus Plan") in which grants of Class A common stock can be made to participants in any of the following forms: (i) incentive stock options, (ii) nonqualified stock options, (iii) appreciation rights, (iv) stock units, (v) stock awards, (vi) dividend equivalents, and (vii) other stock awards. The Omnibus Plan

employees that have similar historical experience. The interest rate for periods within the contractual life of the award is based on the U.S. Treasury yield curve in effect at the time of grant.

Stock Options

(11) Income Taxes

Total income tax benefit, from continuing operations, for the years ended December 31, 2021 and 2020 were as follows (in thousands):

	2021	2020
Income tax expense (benefit)	\$ 3,583	\$ (2,389)

(12) 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 our other long-term debt instruments, approximate their carrying amounts as the interest rates approximate our current borrowing rate for similar debt instruments of comparable maturity, or have variable interest rates.

Fair va

(13) Segment Data

	Year Ended December 31,	
	2021	2020
Capital expenditures:		
Radio	\$ 1,485	\$ 1,514
Television	1,035	560
Corporate	446	461
Consolidated	\$ 2,966	\$ 2,535

	December 31, 2021	December 31, 2020
Total Assets:		
Radio	\$ 401,235	\$ 406,320
Television	34,903	41,283
Corporate	8,446	3,616
Consolidated	\$ 444,584	\$ 451,219

(14) 401(k) Profit-

(b) Certain Relationships

Alessandra Alarcón, the daughter of Raúl Alarcón, our Chief Executive Officer, is employed by us as President of SBS Entertainment. Ms. Alarcón's total compensation paid during the fiscal years ~~2020~~ 2020 was \$0.3 million.

(18) Subsequent Events

Acquisition of FM Radio Station Assets

On February 10, 2022, the Company announced that it entered into an asset purchase agreement (the "Purchase Agreement") to acquire WPYO(FM) and WSUN(FM), two FM radio broadcast stations (together the "Radio Stations") serving the Orlando and Tampa radio markets, from CXR Radio LLC as ~~sole~~ trustee and COX Radio LLC. The stations are held in trust by CXR Radio as a result of a divestiture trust mandate by the Federal Communications Commission (the "FCC"), which arose from FCC ownership limitations and the sale of Cox Radio in 2019. Pursuant to the Purchase Agreement, Cox Radio, which has supported the trust's operation of the Radio Stations, will also convey certain assets, including licenses, permits and authorizations issued by the FCC, leases

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 multimedia 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.

During 2020, the Company initiated various strategies to reduce expenses and preserve cash. If the general economic conditions commence to deteriorate once again, 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.

As discussed in Note 16 to our 2021 financial statements that are included elsewhere in this Annual Reporting Package, during the years ended December 31, 2021 and 2020, the Company recognized \$6.5 million and \$6.7 million, respectively, of proceeds related to the Second Draw Paycheck Protection Program (the "Second Draw PPP") Loan and the Employee Retention Credit (the "ERC") in 2021 and from the Paycheck Protection Program Loan (the "PPP") in 2020 which were a direct offset and reduction to the related eligible compensation and benefits expenses.

Business Drivers and Financial Statement Presentation

The following discussion provides a brief description of certain key items that appear in our 2021 financial statements.

The following summary table presents a comparison of our operating results of operations for the years ended December 31, 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.

	2021	2020
Net revenue	\$ 145,769	\$ 121,939
Engineering and programming expenses	31,584	26,463

Corporate Expenses

Corporate expenses increased \$

Liquidity and Capital Resources

The most important aspects of our liquidity and capital resources as of December 31, 2021 and, as of the date of this Annual Financial Reporting Package, are as follows:

- x The Company fully repaid the outstanding Notes balance of \$240.9 million on February 17, 2021, when it completed its offering of \$310 million, in aggregate principal amount of 9.75% Senior Secured Notes due 2026 (the "2026 Notes").

x

We cannot assure you that these assumptions will be realized.

We have evaluated and will continue to evaluate strategic media acquisitions and/or dispositions and strive to expand our media content through

Special Note Regarding Forward-Looking Statements

This Year End 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 and Subsidiaries 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. These forward-looking statements may involve known and unknown risks, uncertainties and other factors that may cause the Company's actual results and performance in future periods to be materially different from any future results or performance suggested by the forward-looking statements in this press release. Although we believe the expectations reflected in such forward-looking statements are based upon reasonable assumptions, we can give no assurance that actual results will not differ materially from these expectations.

"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, are subject to risks and uncertainties that may cause actual results to differ materially from those anticipated.