# Quarterly Financial Reporting Package
## For the period ended March 31, 2022

# Spanish Broadcasting System, Inc.
# and Subsidiaries

| | |
|---|---|
| **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**

| 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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## FINANCIAL INFORMATION

### Financial Statements - Unaudited

**SPANISH BROADCASTING SYSTEM, INC.**
**AND SUBSIDIARIES**
Unaudited Condensed Consolidated Balance Sheets
(In thousands, except share data)

| | March 31, 2022 | December 31, 2021 |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 19,308 | $ 16,243 |
| Receivables: | | |
| Trade | 35,458 | 50,551 |
| Barter | 172 | 309 |
| | 35,630 | 50,860 |
| Less: allowance for doubtful accounts | 2,857 | 3,027 |
| Net receivables | 32,773 | 47,833 |
| Prepaid expenses and other current assets | 9,223 | 8,384 |
| Total current assets | 61,304 | 72,460 |
| Property and equipment, net | 21,174 | 21,324 |
| FCC broadcasting licenses | 297,179 | 297,179 |
| Goodwill | 32,806 | 32,806 |
| Operating lease right-of-use assets | 19,368 | 19,770 |
| Other assets | 940 | 1,045 |
| Total assets | $ 432,771 | $ 444,584 |
| | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses | $ 23,635 | $ 25,801 |
| Accrued interest | 3,008 | 10,394 |
| Unearned revenue | 801 | 1,454 |
| Operating lease liabilities | 1,049 | 1,075 |
| Total current liabilities | 28,493 | 38,724 |
| Operating lease liabilities - net of current portion | 20,375 | 20,624 |
| 9.75% Senior Secured Notes due 2026, net of deferred financing costs of $7,396 at March 31, 2022 and $7,872 at December 31, 2021 (Note 7) | 302,604 | 302,128 |
| Deferred tax liabilities | 56,772 | 56,772 |
| Other liabilities, less current portion | 3,478 | 3,677 |
| Total liabilities | 411,722 | 421,925 |
| Stockholders' equity: | | |
| Series C convertible preferred stock, $0.01 par value and liquidation value. Authorized 600,000 shares; 380,000 shares issued and outstanding at March 31, 2022 and at December 31, 2021. | 4 | 4 |
| Class A common stock, $0.0001 par value. Authorized 100,000,000 shares; 5,041,878 shares issued and outstanding at March 31, 2022 and at December 31, 2021 | 1 | 1 |
| Class B common stock, $0.0001 par value. Authorized 50,000,000 shares; 2,340,353 shares issued and outstanding at March 31, 2022 and December 31, 2021 | — | — |
| Additional paid-in capital | 652,606 | 652,544 |
| Accumulated deficit | (631,562) | (629,890) |
| Total stockholders' equity | 21,049 | 22,659 |
| Total liabilities and stockholders' equity | $ 432,771 | $ 444,584 |

See accompanying notes to unaudited condensed consolidated financial statements.

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## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 1. Basis of Presentation

The unaudited condensed consolidated financial statements include the accounts of Spanish Broadcasting System, Inc. and its subsidiaries (the Company, we, us, our or SBS). All intercompany balances and transactions have been eliminated in consolidation. The accompanying unaudited condensed consolidated financial statements as of March 31, 2022, and December 31, 2021 and for the three month periods ended March 31, 2022 and 2021 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 included in our Year End Finr

*Disaggregation of Revenue*

The following table summarizes revenue from contracts with customers for the three months ended March 31, 2022 and 2021 (in thousands):

| | Three Months Ended March 31, 2022 | Three Months Ended March 31, 2021 |
|---|---|---|
| Local, national, digital and network | $ 33,641 | $ 26,578 |
| Special events | 9,350 | — |
| Barter | 1,488 | 1,180 |
| Other | 545 | 706 |
| Gross revenue | $ 45,024 | $ 28,464 |
| Less: Agency commissions | 4,628 | 3,821 |
| Net revenue | $ 40,396 | $ 24,643 |

*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 pu(teg)-6(r )-2(to)-4( )-2(ag)losr

**(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 whic

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

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

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

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 common share was computed by dividing net 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 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 loss applicable to common stockholders and the net loss per common share for the three months ended March 31, 2022 and 2021 (in thousands, except per share data):

In conjunction with the settlement of the 10 ¾% Series B Cumulative Exchangeable Redeemable Preferred Stock ("the Series B Preferred Stock"), the Company reserved 1,939,365 (adjusted for fractional shares) shares of its Class A common stock. As of the three months ended March 31, 2022, the Company has issued 771,797 shares of Class A common stock to the Selling Series B Preferred Holders in accordance with the terms and conditions of the Series B Purchase Agreement. The remaining 1,167,568 reserved shares were not included in calculating basic or diluted net loss per share as of March 31, 2022. As of the three months ended March 31, 2021, the Company had not issued any of the reserved Class A common stock to the Selling Series B Preferred Holders.

## 9. 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

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 supported the trust’s operation of the Radio Stations, conveyed certain assets, including licenses, permits and authorizations issued by the FCC, leases and contracts used in or related to the operation of the Radio Stations to the Company as part of the transaction.

On April 29, 2022, the Company closed the purchase of the Radio Stations and paid an aggregate purchase price equal to \$12.5 million consisting of (i) cash in the amount of \$11.25 million and (ii) the release of \$1.25 million of escrowed funds to the seller which were funded on February 14, 2022.

In accordance with ASC 805 Business Combinations, the Company must determine whether a transaction or event that results in an entity obtaining control of a set of net assets should be accounted for as a business combination or alternatively as an asset acquisition. The Company is awaiting the finalization of a third-party asset valuation report, in order to assess the fair value of the assets acquired, to conclude, in conjunction with the relevant facts and circumstances surrounding the transaction, if (i) the transaction constitutes the acquisition of a business for which the acquisition method of accounting is applied or (ii) the transaction is accounted for as an acquisition of assets.

## 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, San Francisco, Orlando, and Tampa. 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.

***Operating Expenses Description and Factors***

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

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

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

**Comparison Analysis of the Operating Results for the Three Months Ended March 31, 2022 and 2021**

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

| | 2022 | 2021 |
|---|---|---|
| **Net revenue:** | | |
| Radio | $ 38,031 | $ 21,755 |
| Television | 2,365 | 2,888 |
| Consolidated | $ 40,396 | $ 24,643 |
| **Engineering and programming expenses:** | | |
| Radio | $ 6,229 | $ 5,539 |
| Television | 2,177 | 2,087 |
| Consolidated | $ 8,406 | $ 7,626 |
| **Selling, general and administrative expenses:** | | |
| Radio | $ 20,146 | $ 11,579 |
| Television | 1,350 | 1,537 |
| Consolidated | $ 21,496 | $ 13,116 |

***Operating Income***

The increase in operating income of $6.6 million was primarily due to the increase in net revenue, the lack of recapitalization costs and other operating expenses, partially offset by increases in engineering, programming, selling, general and administrative and corporate expenses.

***Interest Expense, net***

The increase in interest expense of $0.4 million or 5% was primarily due to increased amortization of deferred financing costs.

***Income Tax Benefit***

The Company recognized an income tax benefit of $0.7 million during the three months ended March 31, 2022. The increase in the tax benefit was due to the pre-tax book loss generated and the recording of a valuation allowance on state net operating losses.

***Net Loss***

The decrease in net loss of $7.6 million was primarily due to the increase in operating income and the reduction of the dividends on Series B preferred stock which were previously classified as interest expense.

## Liquidity and Capital Resources

The most important aspects of our liquidity and capital resources as of March 31, 2022 and, as of the date of this Quarterly Financial Reporting Package, are as follows:

- Our senior secured asset-based revolving credit facility provides for borrowings of up to $15.0 million which is currently undrawn. We intend to use these funds to finance working capital needs and other general corporate purposes, as necessary.
- During the year ended December 31, 2021, the Company determined that it was eligible under the American Rescue Plan Act and filed amendments to its payroll tax returns for $4.7 million of ERC assistance benefit as a direct offset and reduction to the related eligible compensation and benefits expenses. The Company expects the IRS will review the amended ERC eligible returns in 2022 and return the paid taxes to the Company. These funds and benefits help support the Company’s ongoing operations which provide vital information and entertainment to Latino communities.
- On April 29, 2022, the Company closed the purchase of the r

***Record Holders***

As of March 31, 2022, there were approximately 100 record holders of our Class A common stock, three record holders of our Class B common stock and one record holder of our Series C preferred stock. These figures do not include an estimate of the indeterminate number of beneficial holders whose shares may be held of record by brokerage firms and clearing agencies. There is no established public trading market for our Class B common stock or our Series C preferred stock. Our Class B common stock is convertible into our Class f1 0 5(f4 )]TJT/F1at(o)-5(n)-5( )-2(s)3(to)-4(ck)-7(1at(o)-5(ao)-5(s)3(e )-4(s)3(h)(er)-5(tib)]TJETQq0.00000912 0 612