Quarterly Financial Reporting Package
For the period ended March 31, 2021

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)

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, 2021	December 31, 2020
Assets		
Current assets:		
Cash and cash equivalents	$ 14,882	$ 28,178
Receivables:		
Trade	34,647	45,145
Barter	195	189
	34,842	45,334
Less allowance for doubtful accounts	3,389	3,411
Net receivables	31,453	41,923
Prepaid expenses and other current assets	6,803	6,529
Total current assets	53,138	76,630
Property and equipment, net	21,617	21,651
FCC broadcasting licenses	297,179	297,179
Goodwill	32,806	32,806
Operating lease right-of-use assets	20,166	20,509
Other assets	1,180	2,444
Total assets	$ 426,086	$ 451,219
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable and accrued expenses	$ 20,057	$ 19,677
Accrued interest	3,957	1,784
Unearned revenue	985	943
Operating lease liabilities	884	824
Current portion of 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: no shares issued and outstanding at March 31, 2021 and 90,549 shares issued and outstanding at December 31, 2020 and no dividends payable as of March 31, 2021 and $104,234 of dividends payable as of December 31, 2020. (Note 8)	—	137,435
Total current liabilities	25,883	160,663
Operating lease liabilities - net of current portion	20,792	21,023
9.75% Senior Secured Notes due 2026, net of deferred financing costs of $9,242 in 2021	300,758	—
12.5% senior secured notes (Note 7)	—	249,864
10 3/4% Series B cumulative exchangeable redeemable preferred stock outstanding, $0.01 par value, liquidation value $1,000 per share. Authorized 280,000 shares: No shares issued and outstanding at March 31, 2021 and 90,549 shares issued and outstanding at December 31, 2020 - net of current portion (Note 8)	—	57,348
Deferred tax liabilities	63,229	64,076
Other liabilities, less current portion	3,701	3,657
Total liabilities	414,363	556,631
Commitments and contingencies (Note 5)		
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 March 31, 2021 and December 31, 2020	4	4
Class A common stock, $0.0001 par value. Authorized 100,000,000 shares; 4,241,991 shares issued and outstanding at March 31, 2021 and December 31, 2020	—	—
Class B common stock, $0.0001 par value. Authorized 50,000,000 shares; 2,340,353 shares issued and outstanding at March 31, 2021 and December 31, 2020	—	—
Additional paid-in capital	652,618	526,205
Accumulated deficit	(640,899)	(631,621)
Total stockholders' equity (deficit)	11,723	(105,412)
Total liabilities and stockholders' equity	$ 426,086	$ 451,219

See accompanying notes to 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 March 31,	
	2021	**2020**
Net revenue	$ 24,643	$ 36,275
Operating expenses:		
Engineering and programming	7,626	7,674
Selling, general and administrative	13,116	18,241
Corporate expenses	2,474	2,824
Depreciation and amortization	793	846
Total operating expenses	24,009	29,585
Gain on the disposal of assets	(198)	(3,186)
Recapitalization costs	420	1,684
Impairment charges	—	14,103
Other operating expenses	1,181	—
Operating loss	(769)	(5,911)
Other expenses:		
Interest expense	(7,628)	(7,916)
Amortization of deferred financing costs	(237)	—
Dividends on Series B preferred stock classified as interest expense (Note 8)	(1,323)	(2,434)
Loss before income tax	(9,957)	(16,261)
Income tax benefit	(679)	(1,931)
Net loss	$ (9,278)	$ (14,330)
Class A and B net loss per common share (Note 3)		
Basic and Diluted	$ (1.26)	$ (1.95)

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)

	Three Months Ended March 31,	
	2021	**2020**
Cash flows from operating activities:		
Net loss	$ (9,278)	$ (14,330)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Dividends on Series B preferred stock classified as interest expense	1,323	2,434
Gain on the disposal of assets, net of disposal costs	—	(3,186)
Gain on insurance proceeds received for damage to equipment	(198)	—
Impairment charges	—	14,103
Stock-based compensation	1	2
Depreciation and amortization	793	846
Net barter income	(41)	(229)
Provision for trade doubtful accounts	445	210
Amortization of deferred financing costs	237	—
Deferred income taxes	(847)	(2,015)
Unearned revenue-barter	3	767
Changes in operating assets and liabilities:		
Trade receivables	10,030	4,724
Prepaid expenses and other current assets	(338)	(337)
Other assets	1,598	(743)
Accounts payable and accrued expenses	599	(830)
Accrued interest	2,173	104
Other liabilities	(187)	(69)
Net cash provided by operating activities	$ 6,313	$ 1,451
Cash flows from investing activities:		
Purchases of property and equipment	(834)	(869)
Proceeds from the sale of property and equipment	—	15,004
Insurance proceeds received for damage to equipment	198	11
Net proceeds towards FCC repack assets	64	147
Net cash (used in) provided by investing activities	$ (572)	$ 14,293
Cash flows from financing activities:		
Proceeds from 9.75% senior secured notes due 2026	310,000	—
Payment of financing fees	(9,479)	—
Payment of 12.5% senior secured notes	(249,864)	—
Repurchase and redeem Series B preferred stock	(69,694)	—
Net cash used in financing activities	$ (19,037)	$ —
Net (decrease) increase in cash and cash equivalents	(13,296)	15,744
Cash and cash equivalents at beginning of period	28,178	20,856
Cash and cash equivalents at end of period	$ 14,882	$ 36,600
Supplemental cash flows information:		
Interest paid	$ 5,394	$ 7,811
Income tax paid with cash	$ 217	$ 37
Noncash investing and financing activities:		
Gain on repurchase of Series B preferred stock	$ 118,752	$ —
Common stock issuance in settlement of Series B preferred stock	$ 7,660	$ —

See accompanying notes to 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 March 31, 2021 and December 31, 2020 and for the three month periods ended March 31, 2021 and 2020 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, 2020, included in our Year End Financial Reporting Package for the fiscal year ended December 31, 2020. 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 March 31, 2021 through the financial statements' issuance date. The results of operations for the three months ended March 31, 2021 are not necessarily indicative of the results for the entire year ending December 31, 2021 or for any future interim or annual periods.

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 financial instruments, 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. Illiquid credit markets, volatile equity markets and reductions in advertising spending have combined to increase the uncertainty inherent in such estimates and assumptions. 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, allowance for doubtful accounts, FCC 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 months ended March 31, 2021 and 2020 (in thousands):

	Three Months Ended March 31,	
	2021	2020
Local, national, digital and network	$ 26,578	$ 31,547
Special events	—	6,429
Barter	1,180	1,645
Other	706	1,105
Gross revenue	28,464	40,726
Less: Agency commissions and other	3,821	4,451
Net revenue	$ 24,643	$ 36,275

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). 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 March 31, 2021 and 2020, barter revenue of $1.2 million and $1.6 million was offset by barter expense of $1.1 million and $1.5 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 and various other non-broadcast related revenues.

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 March 31, 2021 there were $0.2 million of local, national, digital and network revenue recognized that were included in the unearned revenue balances at the beginning of the period. During the three months ended March 31, 2021, there was no special events revenue recognized that was included in the unearned balances at the beginning of the period. Barter and other revenue recognized during the three months ended March 31, 2021 that were included in unearned revenue balances at the beginning of the period were not significant. On March 31, 2021 there was $1.5 million of variable consideration in the form of agency-based volume discounts accrued as contract liabilities within accrued expenses as compared to $1.3 million for the year-ended December 31, 2020. Variable consideration in the form of agency-based volume discounts of $0.2 million were recognized and recorded as contract liabilities within accrued expenses during the three months ended March 31, 2021.

Transaction Price Allocated to the Remaining Performance Obligation

The Company has elected to use the optional exemption in ASC 606-10-50-14 with regard to disclosing balances associated with remaining performance obligations. Revenue expected to be recognized in any future year related to remaining performance obligations, excluding revenue pertaining to contracts that have an original expected duration of one year or less, contracts where revenue is recognized as invoiced and contracts with variable consideration related to undelivered performance obligations, is not material.

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, 2021 and 2020 (in thousands, except per share data):

	Three Months Ended March 31,					
	2021			2020		
	Class A	Class B	Series C	Class A	Class B	Series C
Basic net loss per share:						
Numerator						
Allocation of undistributed earnings	$ (5,360)	$ (2,957)	$ (961)	$ (8,279)	$ (4,568)	$ (1,483)
Denominator						
Number of shares used in per share computation (as converted)	4,242	2,340	760	4,242	2,340	760
Basic net loss per share	$ (1.26)	$ (1.26)	$ (1.26)	$ (1.95)	$ (1.95)	$ (1.95)
Diluted net loss per share:						
Numerator						
Allocation of undistributed earnings	$ (5,360)	$ (2,957)	$ (961)	$ (8,279)	$ (4,568)	$ (1,483)
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
Diluted net loss per share	$ (1.26)	$ (1.26)	$ (1.26)	$ (1.95)	$ (1.95)	$ (1.95)
Common stock equivalents excluded from calculation of diluted net loss per share as the effect would have been anti-dilutive:	402	—	—	379	—	—

In conjunction with the settlement of the Series B Preferred Stock, the Company has reserved 1,939,365 (adjusted for fractional shares) shares of its Class A common stock which are to be issued to the Settling Series B Preferred Holders in accordance with the terms and conditions of the Series B Purchase Agreement. These reserved shares were not included in calculating basic or diluted net loss per share as of March 31, 2021.

4. Stockholders' Equity (Deficit)

The changes in stockholder's equity (deficit) for the three month period ended March 31, 2021 and 2020 are as follows:

	Three Months Ended March 31,	
	2021	2020
Beginning balance	$ (105,412)	(80,297)
Net loss	(9,278)	(14,330)
Stock-based compensation	1	2
Derecognition of Series B preferred stock	126,412	—
Ending balance	$ 11,723	$ (94,625)

5. 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.

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 disagreed with the assessment and related calculations and pursued a settlement strategy with the taxing jurisdiction with the hope of avoiding a lengthy litigation process. As of December 31, 2020, an accrual of $775,302, based upon our current best estimate of probable loss, had been charged to operations since the second quarter of 2016 because we were uncertain as to whether the jurisdiction would accept our offer. The Company settled the Assessment for $576,252 with the taxing jurisdiction during the quarter ended March 31, 2021.

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 March 31,	
	2021	2020
Net revenue:		
Radio	$ 21,755	$ 32,533
Television	2,888	3,742
Consolidated	$ 24,643	$ 36,275
Engineering and programming expenses:		
Radio	$ 5,539	$ 5,608
Television	2,087	2,066
Consolidated	$ 7,626	$ 7,674
Selling, general and administrative expenses:		
Radio	$ 11,579	$ 16,668
Television	1,537	1,573
Consolidated	$ 13,116	$ 18,241
Corporate expenses:	$ 2,474	$ 2,824
Depreciation and amortization:		
Radio	$ 348	$ 440
Television	343	349
Corporate	102	57
Consolidated	$ 793	$ 846
Gain on the disposal of assets, net:		
Radio	$ —	$ (8)
Television	(198)	(3,178)
Corporate	—	—
Consolidated	$ (198)	$ (3,186)
Recapitalization costs:		
Radio	$ —	$ —
Television	—	—
Corporate	420	1,684
Consolidated	$ 420	$ 1,684
Impairment charges:		
Radio	$ —	$ 14,103
Television	—	—
Corporate	—	—
Consolidated	$ —	$ 14,103
Other operating expenses:		
Radio	$ 1,181	$ —
Television	—	—
Corporate	—	—
Consolidated	$ 1,181	$ —
Operating (loss) income:		
Radio	$ 3,108	$ (4,278)
Television	(881)	2,932
Corporate	(2,996)	(4,565)
Consolidated	$ (769)	$ (5,911)

	Three Months Ended March 31,	
	2021	2020
Capital expenditures:		
Radio	$ 202	$ 563
Television	321	173
Corporate	311	133
Consolidated	$ 834	$ 869

	March 31, 2021	December 31, 2020
Total Assets:		
Radio	$ 383,371	$ 406,320
Television	40,341	41,283
Corporate	2,374	3,616
Consolidated	$ 426,086	$ 451,219

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

a) 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. The Notes matured on April 17, 2017 (being the payment date following the Saturday, April 15, 2017 maturity date), but at that time we were unable to repay the 2017 Notes because we did not have sufficient cash on hand and did not generate sufficient cash from operations or asset sales, nor were we able to access the capital markets to refinance the Notes.

The Notes accrued interest at a rate of 12.5% per year. Since April 17, 2017, we have been paying interest monthly. Interest on the Notes was $31.2 million for the year ended December 31, 2020.

The Company fully repaid the outstanding Notes balance on February 17, 2021, when it completed its offering of $310 million, in aggregate principal amount of 9.750% Senior Secured Notes due 2026 (the "2026 Notes"). The 2026 Notes will mature on March 1, 2026. In accordance with ASC 470, the outstanding balance of the Notes was reclassified as non-current, as of December 31, 2020, since the short-term obligation has been refinanced on a long-term basis.

b) 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 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-month period commencing on February 17, 2021, we may redeem up to 10% of the aggregate principal amount of notes issued under the indenture during each such 12-month period upon not less than 10 nor more than 60 days' prior notice, at a redemption price equal to 104.500% of the principal amount of the notes redeemed plus accrued and unpaid interest, if any, to, but excluding, the date of redemption. Further, at any time on or prior to September 1, 2023, we may redeem up to 40% of the aggregate principal amount of the Notes with the proceeds of certain equity offerings. In addition, we may redeem the Notes with the proceeds of certain asset sales. If we experience certain change of control

events, noteholders may require us to repurchase all or part of their Notes at 101% of the sum of the principal amount of the Notes, plus any other interest that is accrued and unpaid to, but not including, the repurchase date.

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% of our Series B Preferred Stock, (iii) redeem the remaining outstanding 5,283 shares, or 5.84% of our Series B Preferred Stock and (iv) pay related fees and expenses.

The Notes will rank equally with all our existing and future senior indebtedness and senior to all of our existing and future subordinated indebtedness. The Notes and related guarantees will be structurally subordinated to all existing and future indebtedness and other liabilities (including trade payables but excluding intercompany liabilities) of each of our non-guarantor subsidiaries. The Notes and the related guarantees will be secured on a first-priority basis (other than with respect to certain ABL Priority Collateral securing a New Revolving Credit Facility) by a security interest in certain of our and the guarantors' existing and future tangible and intangible assets, subject to certain excluded assets. The Notes and related guarantees will be effectively senior to all of our and our guarantors' existing and future unsecured indebtedness to the extent of the value of the collateral.

The Indenture contains covenants that, among other things, limit the ability of the Company and its restricted subsidiaries to (i) incur additional debt and issue certain preferred stock, (ii) pay certain dividends on, repurchase or make distributions in respect of their capital stock or make other restricted payments, (iii) make certain investments, (iv) sell or exchange certain assets, (v) enter into transactions with affiliates, (vi) create certain liens and (vii) consolidate, merge or transfer all or substantially all of their assets. These covenants are subject to a number of exceptions, limitations and qualifications as set forth in the Indenture. The Indenture does not contain any financial covenants.

The Indenture also contains customary events of default including, but not limited to, nonpayment, breach of covenants, and payment or acceleration defaults in certain other indebtedness of the Company or certain of its subsidiaries. Upon an event of default, the holders of not less than 25% in principal amount of the then-outstanding Notes may declare the Notes immediately due and payable, or in certain circumstances, the Notes automatically will become due and immediately payable.

c) New Revolving Credit Facility

Concurrently with the completion of the Notes offering, we entered into a new senior secured asset-based revolving credit facility, providing for borrowings of up to $15.0 million subject to compliance with a "borrowing base." We intend to use borrowings under the New Revolving Credit Facility, if necessary, to finance working capital needs and other general corporate purposes. The New Revolving Credit Facility does not currently have a balance outstanding and the $15.0 million is currently available to be drawn by the Company.

At the Company's election, the interest rate on borrowings under the New Revolving Credit Facility will bear interest at: (a) so long as the Leverage Fall Away Trigger (as defined below) shall not then be continuing, either (i) LIBOR plus a margin of 2.75% (stepping down to 2.50% upon Availability exceeding 33% and 2.25% upon Availability exceeding 66%) or (ii) the base rate plus a margin of 1.75% (stepping down to 1.50% upon Availability exceeding 33% and 1.25% upon Availability exceeding 66%) and (b) following the occurrence and during the continuation of a Leverage Fall Away Trigger, either (i) LIBOR plus a margin of 4.00% (stepping down to 3.75% upon the net leverage ratio reaching 5.0x) or (ii) the base rate plus a margin of 3.00% (stepping down to 2.75% upon the net leverage ratio reaching 5.0x).

All obligations under the New Revolving Credit Facility are secured by (a) a first priority lien on all accounts receivable, cash, deposit accounts, and proceeds thereof held by the Company and the guarantors (the "ABL Priority Collateral") and (b) a first lien, pari passu with the holders of the Notes, on all other assets held by the Company and the guarantors. Letters of credit issued under the agreement are required to be collateralized with cash in certain circumstances.

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 5, 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 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 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. 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 given the information disclosed to the Company in the Preferred Holder Complaint regarding the purported ownership of a majority of the Series B preferred stock by foreign entities, the Company determined that it may need to petition the FCC for a ruling allowing 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. The Company has not yet concluded on the actual total foreign ownership and 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-current liability based on the subsequent settlement. To determine the amount of Series B preferred stock that would be reclassified to non-current, the Company calculated the net proceeds received from the 2026 Notes plus the fair value of the Class A common shares provided to the Selling Series B Preferred Holders under the Series B Preferred Stock Transaction Agreements. The fair value of the Class A common stock was based on the closing price of the Class A common stock on February 11, 2021, the date the 2026 Notes were priced. From this total, the Company then deducted the payment made under the Notes to arrive at the residual amount to be allocated to the Series B preferred stock. The calculation resulted in the Company reclassifying $57.3 million from current to non-current liabilities.

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 stock. The following table summarizes the calculation of the recognized gain as of March 31, 2021 (in thousands):

	March 31, 2021
Series B Carrying Value of Selling Group	$ 184,618
Less: fair value of equity securities granted	7,660
Net carrying value	$ 176,958
Less: cash payments, including direct expenses	58,206
Gain on repurchase of Selling Series B preferred stock	$ 118,752

9. Income Taxes

During the quarter, as discussed in Note 8, the Company refinanced its outstanding debt and used a portion of the funds to repurchase and redeem the preferred shareholders. This transaction resulted in an ownership change under Internal Revenue Code Section 382 which can limit tax attributes, mainly 163(j) interest carryovers and net operating losses. The Company has recorded an estimated impact through a recording of a valuation allowance in the amount of $11.9 million, however the Company is still assessing the overall impact of this ownership change.

We are calculating our effective income tax rate using a year-to-date income tax calculation. 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 an ownership change and release of the going concern, management has adjusted its valuation allowance position as of March 31, 2021 from December 31, 2020. The Company has released their valuation allowance on certain US and Puerto Rico deferred tax assets that are now expected to be realized and recorded a valuation allowance on certain tax attributes that are expected to be limited as a result of an ownership change that occurred during the quarter.

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, a release of a valuation allowance on certain US and Puerto Rico deferred tax assets that are now expected to be realized, and a recording of a valuation allowance on certain tax attributes that are expected to be limited as a result of an ownership change that occurred during the quarter. The CARES ACT interest limitation which increased from 30% to 50% for 2019 and 2020 has expired.

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 2017 through 2019. The tax years that remain subject to assessment of additional liabilities by the Puerto Rico tax authority are 2014 through 2019.

Based on our evaluation, we have concluded that there are no material uncertain tax positions requiring recognition in our consolidated financial statements as of March 31, 2021.

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 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 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 outstanding 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 estimated fair value of our financial instruments is as follows:

		March 31, 2021	
Description	Fair Value Hierarchy	Carrying Amount	Fair Value
9.75% senior secured notes due 2026 (Note 7)	Level 2	$ 310.0	304.9

11. Subsequent Events

Related Party Transactions

On April 9, 2021, we entered into a local marketing agreement ("LMA") with South Broadcasting System, Inc. ("South Broadcasting"), a company wholly owned by our Chairman and CEO, Raúl Alarcón. Pursuant to the LMA, South Broadcasting agrees to rebroadcast certain agreed upon programming provided by the Company on FM translator W292GE serving Miami, Florida ("the LMA Station"). We paid an initial fee of $0.3 million and are required to pay the operating costs of the LMA Station and in exchange, we retain all revenues from the sale of the commercial advertising time inventory. The LMA commenced on April 10, 2021, for one year, through April 9, 2022 and renews for subsequent one-year terms unless earlier terminated by the parties.

Coronavirus Aid, Relief, and Economic Security Act (CARES Act)

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") was signed into law and subsequently amended, on June 5, 2020, when the Paycheck Protection Flexibility Act of 2020 ("Flexibility 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. Given the uncertainty in the duration of the COVID-19 pandemic and based on the Company's analysis of the CARES Act, the Company applied for and on April 15, 2020 received an unsecured PPP Loan in the amount of approximately $6.5 million to support the Company's ongoing operations which is providing vital information and entertainment to its Latino communities. On April 6, 2021, the SBA informed the Company that its Paycheck Protection Program Loan of $6.5 million had been forgiven in its entirety.

The Company applied for and was granted a Second Draw PPP Loan in the amount of $2.0 million, which will be utilized to pay for and maintain employment and compensation levels as required by the CARES Act for the loan to be forgiven. These funds will help support the Company's ongoing operations which provide vital information and entertainment to its Latino communities.

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 three months ended March 31, 2021 and 2020, our radio revenue was generated primarily from the sale of local, national, network and digital advertising, and our radio segment generated 88% and 90% 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 three months ended March 31, 2021 and 2020, our television revenue was generated primarily from the sale of local advertising and paid programming and generated 12% 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 app. The LaMusica mobile app is a music and entertainment video and audio app, 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 enhancements to our mobile app significantly enhance the audience's engagement level and increases the reach of our mobile offering. In addition, we produce live concerts and events in the United States and Puerto Rico. Concerts generate revenue from ticket sales, sponsorship and promotions, raise awareness of our brands in the surrounding communities and provide our advertising partners additional opportunities to reach their target audience.

Employees

As of March 31, 2021, we had 349 full-time employees and 85 part-time employees. In July 2016, SAG-AFTRA was certified as the exclusive collective bargaining representative of a bargaining unit that now consists of approximately 27 employees at our Los Angeles-based stations KXOL and KLAX. In October 2018, SAG-AFTRA was also certified as the exclusive collective bargaining representative of a bargaining unit that now consists of approximately 7 employees at our Chicago-based station WLEY. We have been negotiating with representatives of SAG-AFTRA for initial collective bargaining agreements covering those bargaining units. To date, we have not yet reached initial collective bargaining agreements with SAG-AFTRA covering either bargaining unit. Recently, a substantial number of employees at our Chicago-based station filed a decertification petition with the National Labor Relations Board asserting that SAG-AFTRA is no longer their representative and requesting that the NLRB proceed with an election to remove the Union. The election has commenced and is being conducted by mail-in vote. The votes will be counted by the NLRB on June 17, 2021.

Our business depends upon the efforts, abilities and expertise of our executive officers and other key employees, including on-air talent, as well as our ability to hire and retain qualified personnel. The loss of any of our executive officers and key employees, particularly Raúl Alarcón, Chairman of our Board of Directors, Chief Executive Officer and President, could have a material adverse effect on our business.

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 three months ended March 31, 2021 and 2020, local and digital revenue comprised 67% and 58% 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 three months ended March 31, 2021 and 2020, national and network revenue comprised 26% and 20% 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 to maximize cash revenue from our available airtime. For the three months ended March 31, 2021 and 2020, barter revenue comprised 4% 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 three months ended March 31, 2021 and 2020, special events revenue comprised 0% and 16% of our gross revenues, respectively.

- *Other revenue.* We receive other ancillary revenue such as syndication revenue from licensing various MegaTV content, subscriber revenue paid to us by cable and satellite providers, rental income from renting available tower space or sub-channels and various other non-broadcast related revenues. For the three months ended March 31, 2021 and 2020, other revenue comprised 3% and 2% 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 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 management and vendors.

Comparison Analysis of the Operating Results for the Three Months Ended March 31, 2021 and 2020

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

	Three Months Ended March 31,	
	2021	**2020**
Net revenue:		
Radio	$ 21,755	$ 32,533
Television	2,888	3,742
Consolidated	$ 24,643	$ 36,275
Engineering and programming expenses:		
Radio	$ 5,539	$ 5,608
Television	2,087	2,066
Consolidated	$ 7,626	$ 7,674
Selling, general and administrative expenses:		
Radio	$ 11,579	$ 16,668
Television	1,537	1,573
Consolidated	$ 13,116	$ 18,241
Corporate expenses:	$ 2,474	$ 2,824
Depreciation and amortization:		
Radio	$ 348	$ 440
Television	343	349
Corporate	102	57
Consolidated	$ 793	$ 846
Gain on the disposal of assets, net:		
Radio	$ —	$ (8)
Television	(198)	(3,178)
Corporate	—	—
Consolidated	$ (198)	$ (3,186)
Recapitalization costs:		
Radio	$ —	$ —
Television	—	—
Corporate	420	1,684
Consolidated	$ 420	$ 1,684
Impairment charges:		
Radio	$ —	$ 14,103
Television	—	—
Corporate	—	—
Consolidated	$ —	$ 14,103
Other operating expenses:		
Radio	$ 1,181	$ —
Television	—	—
Corporate	—	—
Consolidated	$ 1,181	$ —
Operating (loss) income:		
Radio	$ 3,108	$ (4,278)
Television	(881)	2,932
Corporate	(2,996)	(4,565)
Consolidated	$ (769)	$ (5,911)

The following summary table presents a comparison of our operating results of operations for the three months ended March 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.

	Three-Months Ended March 31,	
	2021	2020
Net revenue	$ 24,643	$ 36,275
Engineering and programming expenses	7,626	7,674
Selling, general and administrative expenses	13,116	18,241
Corporate expenses	2,474	2,824
Depreciation and amortization	793	846
Gain on disposal of assets, net of disposal costs	(198)	(3,186)
Recapitalization costs	420	1,684
Impairment charges	—	14,103
Other operating expenses	1,181	—
Operating loss	$ (769)	$ (5,911)
Interest expense	(7,628)	(7,916)
Dividends on Series B preferred stock classified as interest expense	(1,323)	(2,434)
Amortization of deferred financing costs	(237)	—
Income tax benefit	(679)	(1,931)
Net loss	$ (9,278)	$ (14,330)

Overview

During the three months ended March 31, 2021, we observed sequential month over month increases in advertising demand in both our radio and television segments despite the continued effects of the COVID-19 pandemic on our local markets and special events.

Net Revenue

The decrease in our consolidated net revenues of $11.6 million or 32% was due to a decrease in both our radio and television segments net revenue. 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 $10.8 million or 33% due to decreases in all revenue streams, primarily the lack of special events and local revenue. Our television segment net revenue decreased $0.8 million or 23%, due to the decrease in local, national sales and subscriber revenues which were partially offset by increases in barter and syndication revenues.

Engineering and Programming Expenses

Our consolidated engineering and programming expenses remained flat due to a decrease in our radio segment expenses partially offset by an increase in our television segment expenses. Our radio segment expenses decreased $0.1 million or less than 1%, mainly due to decreases in compensation and benefits, partially offset by increases in music license fees. Our television segment expenses increased by less than $0.1 million or less than 1% due to the decrease in the Puerto Rico production tax credits which were offset by decreases in production costs and decreases in expenses related to the sale of our Houston television assets.

Selling, General, and Administrative Expenses

The decrease in our consolidated selling, general and administrative expenses of $5.1 million or 28% was due to decreases in both our radio and television segment expenses. Our radio segment expenses decreased $5.1 million or 31%, primarily due to decreases in special event expenses, barter, professional fees and compensation and benefits, partially offset by increases in our allowance for doubtful accounts. Our television segment expenses decreased by less than $0.1 million or less than 1% primarily due to decreases in expenses related to the sale of our Houston television assets partially offset by increases in professional fees and facilities expenses.

Corporate Expenses

Corporate expenses decreased $0.4 million or 12% primarily due to decreases in insurance, travel related expenses and compensation and benefits.

Gain on the Disposal of Assets

The gain on disposal of assets of $0.2 million was related to the disposal of certain television assets in the first quarter of 2021.

Recapitalization Costs

The Company incurred $0.4 million of recapitalization costs, in the three months ended March 31, 2021, a decrease of $1.3 million. The change was primarily due to our successful refinancing efforts which concluded in February 2021.

Impairment Charges

The decrease in impairment charges for the three months ended March 31, 2021 of $14.1 million was due to not recognizing impairment charges during the current year compared to having impaired various of our radio FCC broadcasting licenses in the prior year.

Other Operating Expenses

The Company incurred $1.2 million of other operating expenses related to the termination of our prior national sales representative agreement.

Operating Loss

The decrease in operating loss of $5.1 million or 87% was primarily due to the lack of impairment charges during the period, the decrease in recapitalization and operating costs, which were partially offset by the decrease in net revenue resulting from the ongoing negative financial impact of COVID-19.

Interest Expense, net

The decrease in interest expense of $0.3 million or 4% was primarily due to decreased interest associated with the new 9.75% senior secured notes due 2026 offset by the related amortization of related financing costs.

Dividends on Series B Preferred Stock Classified as Interest Expense

The decrease of dividends on Series B Preferred Stock classified as interest expense of $1.2 million was due to the repurchase and redemption of the Series B preferred stock during the first quarter of 2021.

Income Tax Benefit

The decrease of $1.2 million from prior year was primarily a result of a release of a valuation allowance on certain US and Puerto Rico deferred tax assets that are now expected to be realized, partially offset by a recording of a valuation allowance on certain tax attributes that are expected to be limited as a result of an ownership change that occurred during the quarter.

Net Loss

The decrease in net loss of $3.3 million was primarily due to the decrease in operating loss 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, 2021 and, as of the date of this Quarterly Financial Reporting Package, are as follows:

- The Company fully repaid the outstanding Notes balance of $249.9 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").
- 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. 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.
- Concurrently with the completion of the Notes offering, we entered into a new senior secured asset-based revolving credit facility, providing for borrowings of up to $15.0 million which we intend to use to finance working capital needs and other general corporate purposes. The New Revolving Credit Facility is currently undrawn.
- We previously had a working capital deficit of $84.0 million, primarily due to the classification of a portion of our Series B preferred stock as current liabilities. After settlement of the Series B preferred stock and resulting gain recognized in the quarter ended March 31, 2021, we have positive working capital of $27.3 million.
- On April 6, 2021, the SBA informed the Company that the previously granted Paycheck Protection Program Loan of $6.5 million had been forgiven in its entirety. The Company applied for and was granted a Second Draw PPP Loan in the amount of $2.0 million, which will be utilized to pay for and maintain employment and compensation levels as required by the CARES Act for the loan to be forgiven. These funds will help support the Company's ongoing operations which provide vital information and entertainment to its Latino communities.

Although we have access to a $15 million revolving credit facility, our primary source of liquidity is our current cash and cash equivalents. 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.

Our strategy is to primarily utilize cash flows from operations to meet our ordinary course operating obligations, as well as availability under the revolving credit facility (as needed). 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 as evidenced by conditions that have steadily improved sequentially month to month over the quarter,
- we will continue to successfully implement our business strategy,
- we will use cash flows from operating activities to fund our operations and pay our expenses (including interest on the Notes), 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.

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.

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 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 shareholder's rights plan.

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

Class A Common Stock

As of March 31, 2021, we had 4,241,991 shares of Class A common stock outstanding, which have one vote per share. As part of the repurchase settlement agreement with the previous Settling Series B Preferred holders, the company has additionally reserved 1,939,365 (adjusted for fractional shares) shares of Class A Common stock which are currently not outstanding as of March 31, 2021.

Class B Common Stock

As of March 31, 2021, we had 2,340,353 shares of Class B common stock outstanding, which have ten votes per share. Raúl Alarcón, our Chairman of the Board and Chief Executive Officer, has voting control over all but 350 shares of the Class B common stock.

Record Holders

As of March 31, 2021, there were approximately 86 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 A common stock on a share-for-share basis, and each share of the Series C preferred stock is convertible into two shares of Class A common stock.

Summary of Capital Resources

The following summary table presents a comparison of our capital resources for the three months ended March 31, 2021 and 2020, with respect to certain of our key measures affecting our liquidity. The changes set forth in the table are discussed below. This section should be read in conjunction with the consolidated financial statements and accompanying notes.

	Three Months Ended March 31,		Change
	2021	2020	$
Capital expenditures:			
Radio	$ 202	$ 563	(361)
Television	321	173	148
Corporate	311	133	178
Consolidated	$ 834	$ 869	(35)
Net cash flows provided by operating activities	$ 6,313	1,451	4,862
Net cash flows (used in) provided by investing activities	(572)	14,293	(14,865)
Net cash flows used in financing activities	(19,037)	—	(19,037)
Net (decrease) increase in cash and cash equivalents	$ (13,296)	15,744	

Capital Expenditures

The Company has continued its cost cutting and cash conservation efforts of 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 increases in working capital and improvement to operating income.

Net Cash Flows (Used in) Provided by Investing Activities

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

Net Cash Flows Used in Financing Activities

Changes in our net cash used in financing activities were a result of the paydown of our 12.5% senior secured notes, the repurchase and redemption of our Series B preferred stock and the issuance of our 9.75% senior secured notes due 2026.

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 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: we are highly leveraged and our substantial level of indebtedness could adversely affect our financial condition and prevent us from fulfilling our financial obligations; we face 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 risks relating to our NOL carry-forwards since they became subject to limitations under Section 382 of the Internal Revenue Code of 1986 when we experienced an ownership change due to the recent recapitalization of the Company; 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; our deregistered stock's liquidity can be adversely affected because we are no longer required to report to the SEC and our stock continues to trade on the OTC Pink Market. 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.