Year End Financial Reporting Package
For the year ended December 31, 2021

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
(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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INDEPENDENT AUDITOR'S REPORT

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

Opinion

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

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Spanish Broadcasting System, Inc. and Subsidiaries as of December 31, 2021 and 2020, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Spanish Broadcasting System, Inc. and Subsidiaries and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Spanish Broadcasting System, Inc. and Subsidiaries' ability to continue as a going concern for one year from the date the consolidated financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Spanish Broadcasting System, Inc. and Subsidiaries' internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Spanish Broadcasting System, Inc. and Subsidiaries' ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

Other Information

Management is responsible for the other information included in the Year End Financial Reporting Package. The other information comprises the Management's Discussion and Analysis of Financial Condition and Results of Operations but does not include the consolidated financial statements and our auditor's report thereon. Our opinion on the consolidated financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the consolidated financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

/s/ Crowe LLP

Fort Lauderdale, Florida
April 12, 2022

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

	December 31, 2021	December 31, 2020
Assets		
Current assets:		
Cash and cash equivalents	$ 16,243	$ 28,178
Receivables:		
Trade	50,551	45,145
Barter	309	189
	50,860	45,334
Less: allowance for doubtful accounts	3,027	3,411
Net receivables	47,833	41,923
Prepaid expenses and other current assets	8,384	6,529
Total current assets	72,460	76,630
Property and equipment, net	21,324	21,651
FCC broadcasting licenses	297,179	297,179
Goodwill	32,806	32,806
Operating lease right-of-use assets	19,770	20,509
Other assets	1,045	2,444
Total assets	$ 444,584	$ 451,219
Liabilities and Stockholders' Equity (Deficit)		
Current liabilities:		
Accounts payable and accrued expenses (Note 6)	$ 25,801	$ 19,677
Accrued interest	10,394	1,784
Unearned revenue	1,454	943
Operating lease liabilities	1,075	824
Current portion of 10¾% Series B cumulative exchangeable redeemable preferred stock outstanding and dividends outstanding, $0.01 par value, liquidation value $1,000 per share. (Note 8)	—	137,435
Total current liabilities	38,724	160,663
Operating lease liabilities - net of current portion	20,624	21,023
9.75% Senior Secured Notes due 2026, net of deferred financing costs of $7,872 in 2021 (Note 7)	302,128	—
12.5% senior secured notes (Note 7)	—	249,864
10¾% Series B cumulative exchangeable redeemable preferred stock outstanding, $0.01 par value, liquidation value $1,000 per share. (Note 8)	—	57,348
Deferred tax liabilities	56,772	64,076
Other liabilities, less current portion	3,677	3,657
Total liabilities	421,925	556,631
Stockholders' equity (deficit):		
Series C convertible preferred stock, $0.01 par value and liquidation value. Authorized 600,000 shares; 380,000 shares issued and outstanding at December 31, 2021 and 2020	4	4
Class A common stock, $0.0001 par value. Authorized 100,000,000 shares; 5,041,878 shares issued and outstanding at December 31, 2021 and 4,241,991 shares issued and outstanding at December 31, 2020	1	—
Class B common stock, $0.0001 par value. Authorized 50,000,000 shares; 2,340,353 shares issued and outstanding at December 31, 2021 and December 31, 2020	—	—
Additional paid-in capital	652,544	526,205
Accumulated deficit	(629,890)	(631,621)
Total stockholders' equity (deficit)	22,659	(105,412)
Total liabilities and stockholders' equity (deficit)	$ 444,584	$ 451,219

See accompanying notes to consolidated financial statements.

SPANISH BROADCASTING SYSTEM, INC.
AND SUBSIDIARIES
Consolidated Statements of Operations
Years Ended December 31, 2021 and 2020
(In thousands, except per share data)

	Year Ended December 31, 2021	Year Ended December 31, 2020
Net revenue	$ 145,769	$ 121,939
Operating expenses:		
Engineering and programming	31,584	26,463
Selling, general and administrative	57,195	52,997
Corporate expenses	14,740	8,533
Depreciation and amortization	3,128	3,261
Total operating expenses	106,647	91,254
Gain on the disposal of assets	(176)	(3,261)
Recapitalization costs	420	4,679
Impairment charges	—	14,352
Other operating expenses	81	1,102
Operating income	38,797	13,813
Other expenses:		
Interest expense	(32,160)	(31,587)
Dividends on Series B preferred stock classified as interest expense (Note 8)	(1,323)	(9,734)
Income (loss) before income tax	5,314	(27,508)
Income tax expense (benefit)	3,583	(2,389)
Net income (loss)	$ 1,731	$ (25,119)
Class A weighted average common shares outstanding (Note 2(m))		
Basic	4,545	4,242
Diluted	4,620	4,242
Class B weighted average common shares outstanding (Note 2(m))		
Basic	2,340	2,340
Diluted	2,340	2,340
Class A and B net income (loss) per common share (Note 2(m))		
Basic	$ 0.23	$ (3.42)
Diluted	$ 0.22	$ (3.42)

See accompanying notes to consolidated financial statements.

SPANISH BROADCASTING SYSTEM, INC.
AND SUBSIDIARIES
Consolidated Statements of Changes in Stockholders' Equity (Deficit)
Years Ended December 31, 2021 and 2020
(In thousands, except share data)

	Series C convertible preferred stock		Class A common stock		Class B common stock					
	Number of shares	Par value	Number of shares	Par value	Number of shares	Par value	Additional paid-in capital	Accumulated other comprehensive loss, net	Accumulated deficit	Total stockholders' equity (deficit)
Balance at December 31, 2019	380,000	$ 4	4,241,991	$ —	2,340,353	$ —	$ 526,201	$ —	$ (606,502)	$ (80,297)
Stock-based compensation	—	—	—	—	—	—	4	—	—	4
Net loss	—	—	—	—	—	—	—	—	(25,119)	(25,119)
Balance at December 31, 2020	380,000	4	4,241,991	—	2,340,353	—	526,205	—	(631,621)	(105,412)
Gain and issuance of class A common stock related to the Series B Settlement and Purchase Agreement (Note 8)	—	—	771,797	1	—	—	126,352	—	—	126,353
Stock-based compensation	—	—	—	—	—	—	37	—	—	37
Cash exercise of stock options	—	—	10,000	—	—	—	10	—	—	10
Cashless exercise of stock options	—	—	18,090	—	—	—	(60)	—	—	(60)
Net income	—	—	—	—	—	—	—	—	1,731	1,731
Balance at December 31, 2021	380,000	$ 4	5,041,878	$ 1	2,340,353	$ —	$ 652,544	$ —	$ (629,890)	$ 22,659

See accompanying notes to consolidated financial statements.

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

	Year Ended December 31, 2021	Year Ended December 31, 2020
Cash flows from operating activities:		
Net income (loss)	$ 1,731	$ (25,119)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Dividends on Series B preferred stock classified as interest expense	1,323	9,734
Loss (gain) on the disposal of assets, net of disposal costs	29	(3,316)
(Gain) loss on insurance proceeds received for damage to equipment	(205)	55
Impairment charges	—	14,352
Stock-based compensation	37	4
Depreciation and amortization	3,128	3,261
Net barter income	(130)	(264)
Provision for trade doubtful accounts	885	3,039
Amortization of deferred financing costs	1,670	—
Deferred income taxes	(2,369)	(1,655)
Unearned revenue-barter	152	709
Changes in operating assets and liabilities:		
Trade receivables	(6,747)	(5,500)
Prepaid expenses and other current assets	(6,851)	(4,681)
Other assets	1,318	1,598
Accounts payable and accrued expenses	6,574	(715)
Accrued interest	8,610	271
Other liabilities	(859)	628
Net cash provided by (used in) operating activities	$ 8,296	$ (7,599)
Cash flows from investing activities:		
Purchases of property and equipment	(2,966)	(2,535)
Proceeds from the sale of property and equipment	—	15,004
Insurance proceeds received for damage to equipment	277	418
Net proceeds towards FCC repack assets	70	2,034
Net cash (used in) provided by investing activities	$ (2,619)	$ 14,921
Cash flows from financing activities:		
Proceeds from 9.75% senior secured notes due 2026	310,000	—
Payment of financing fees	(8,347)	—
Payment of 12.5% senior secured notes	(249,864)	—
Repurchase and redemption Series B preferred stock	(69,351)	—
Proceeds from exercise of Class A common stock options	10	—
Tax withholdings on exercised stock options	(60)	—
Net cash used in financing activities	$ (17,612)	$ —
Net (decrease) increase in cash and cash equivalents	(11,935)	7,322
Cash and cash equivalents at beginning of period	28,178	20,856
Cash and cash equivalents at end of period	$ 16,243	$ 28,178
Supplemental cash flows information:		
Interest paid	$ 21,832	$ 31,246
Income tax paid with cash	$ 2,657	$ 73
Noncash assets (tax credits) used to offset income tax payable	$ 974	$ 1,235
Transfer of noncash production tax credits to deferred tax assets	$ 4,935	$ 1,752
Noncash investing and financing activities:		
Gain on repurchase of Series B preferred stock	$ 118,693	$ —
Common stock issuance in settlement of Series B preferred stock	$ 7,660	$ —

See accompanying notes to consolidated financial statements.

SPANISH BROADCASTING SYSTEM, INC.
AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2021 and 2020

(1) Organization and Nature of Business

All references to "we", "us", "our", "SBS", "our Company", or "the Company" in this report mean Spanish Broadcasting System, Inc., a Delaware corporation, and all entities owned or controlled by Spanish Broadcasting System Inc. Spanish Broadcasting System, Inc., and its subsidiaries owns and/or operates 18 radio stations in the Los Angeles, New York, Puerto Rico, Chicago, Miami and San Francisco markets. In addition, we own and operate five television stations, which operate as one television operation, branded as "MegaTV." We also have various MegaTV broadcasting outlets under affiliation or programming agreements. As part of our operating business, we produce live concerts and events and maintain multiple bilingual websites, including www.LaMusica.com, Mega.tv, various station websites, as well as the LaMusica mobile app providing content related to Latin music, entertainment, news and culture.

Our primary source of revenue is the sale of advertising time on our stations to local and national advertisers. Our revenue is affected primarily by the advertising rates that our stations are able to charge, as well as the overall demand for advertising time in each respective market. Seasonal net broadcasting revenue fluctuations are common in the broadcasting industry and are due to fluctuations in advertising expenditures by local and national advertisers. Typically for the broadcasting industry, the first calendar quarter generally produces the lowest revenue.

The broadcasting industry is subject to extensive federal regulation which, among other things, requires approval by the Federal Communications Commission ("FCC") for the issuance, renewal, transfer and assignment of broadcasting station operating licenses and limits the number of broadcasting properties we may acquire.

Impact of the COVID-19 Pandemic

In March 2020, the World Health Organization declared the outbreak of COVID-19 a global pandemic. The responses by federal, state and local governments to restrict public gatherings and travel rapidly grew to include stay-at-home orders, school closures and mandatory restrictions on non-essential businesses and services adversely affected workforces, economies, and financial markets resulting in a significant economic downturn. The COVID-19 pandemic resulted in the temporary disruptions of many of our advertisers' businesses thereby impacting our core source of revenue, which had a material impact on our operations and financial condition. In 2021, the Company benefited from a general economic recovery from the COVID-19 pandemic however the continuing impact of subsequent COVID-19 variants may result in general economic conditions deteriorating again in the future. Although the Company has evidenced steady improvements during 2021, if local, state and federal governments or public and private entities begin to implement additional precautionary or restrictive measures in 2022 or the pandemic does not end, as the case may be, there may be material adverse effects on our business, results of operations, financial condition and cash flows.

During 2020, the Company initiated various strategies to reduce expenses and preserve cash. If the general economic conditions commence to deteriorate once again, additional cost management actions will be considered to protect our long-term financial health and ensure our ability to continue serving our viewers, listeners and advertisers.

(2) Summary of Significant Accounting Policies and Related Matters

(a) Basis of Presentation

The consolidated financial statements include the accounts of Spanish Broadcasting System, Inc. and its subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation. In addition, we evaluated subsequent events after the balance sheet date and through April 12, 2022, the date the financial statements are available to be issued.

(b) Valuation of Accounts Receivable

We review accounts receivable to determine which accounts are doubtful of collection. In making the determination of the appropriate allowance for doubtful accounts, we consider our history of write-offs, relationships with our customers, age of the invoices and the overall creditworthiness of our customers. For each of the years ended December 31, 2021 and 2020, we incurred bad debt expense of $0.9 million and $3.0 million, respectively. The year over year decrease was primarily due to general economic recovery from the COVID-19 pandemic. Changes in the credit worthiness of customers, general economic conditions and other factors may impact the level of future write-offs.

(c) Property and Equipment

Property and equipment, including capital leases, are stated at historical cost, less accumulated depreciation and amortization. We depreciate the cost of our property and equipment using the straight-line method over the respective estimated useful lives (see Note 5). Leasehold improvements are amortized on a straight-line basis over the shorter of the remaining life of the lease or the useful life of the improvements.

Maintenance and repairs are charged to expense as incurred; improvements are capitalized. When items are retired or are otherwise disposed of, the related costs and accumulated depreciation and amortization are removed from the accounts and any resulting gains or losses are credited or charged to operating income.

(d) Impairment or Disposal of Long-Lived Assets

Accounting for impairment or disposal of long-lived assets requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized in the amount by which the carrying amount of the asset exceeds the estimated fair value of the asset.

(e) FCC Broadcasting Licenses

Our indefinite-lived intangible assets consist of Federal Communications Commission (the "FCC") broadcasting licenses. FCC broadcasting licenses are granted to stations for up to eight years under the Telecommunications Act of 1996 ("the Act"). We intend to renew our licenses indefinitely and evidence supports our ability to do so. Historically, there has been no material challenge to our license renewals. In addition, the technology used in broadcasting is not expected to be replaced by another technology any time in the foreseeable future. The weighted-average period before the next renewal of our FCC broadcasting licenses is 5.1 years.

We do not amortize our FCC broadcasting licenses. We test these indefinite-lived intangible assets for impairment at least annually, as of November 30th, or when an event occurs that may indicate that impairment may have occurred. We test our FCC broadcasting licenses for impairment at the market cluster level.

Our valuations principally use the discounted cash flow methodology. The key assumptions incorporated in the discounted cash flow model are market revenue projections, market revenue share projections, anticipated operating profit margins and risk adjusted discount rates. These assumptions vary based on the market size, type of broadcast of signal, media competition and audience share and primarily reflect industry norms for similar stations/broadcast signals, as well as historical performance and trends of the markets. In the preparation of the FCC broadcasting license appraisals, estimates and assumptions are made that affect the valuation of the intangible asset. Since a number of factors such as: overall advertising demand, station listenership and viewership, audience tastes, technology, fluctuation in preferred advertising media and the estimated cost of capital may influence the determination of the fair value of our FCC broadcasting licenses, we are unable to predict whether impairments, which could have a material impact on our consolidated financial statements, will occur in the future. We also consider additional market valuation approaches in assessing whether any impairment may exist at reporting units. We also consider additional market valuation approaches in assessing whether any impairment may exist at reporting units.

Based on consideration of these factors, we determined that there were no impairments of our FCC broadcasting licenses for the year ended December 31, 2021 as compared to the year ended December 31, 2020, when we recorded a non-cash impairment loss of approximately $14.1 million that reduced the carrying value of such FCC broadcasting licenses, see Note 15 for additional details regarding the 2020 FCC license impairment.

Any significant change in these factors will result in a modification of the key assumptions, which may result in an additional impairment.

(f) Goodwill

Goodwill consists of the excess of the purchase price over the fair value of tangible and identifiable intangible net assets acquired in business combinations. We test goodwill for impairment at least annually at the reporting unit level. We have determined that we have two reporting units, Radio and Television. We currently only have goodwill in our radio reporting unit. We have aggregated our operating components (radio stations) into a single radio reporting unit based upon the similarity of their economic characteristics. Our evaluation included consideration of factors, such as regulatory environment, business model, gross margins, nature of services and the process for delivering these services.

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

During 2021 and 2020, we performed interim and annual impairment reviews of our goodwill, as of November 30th. Our impairment testing indicated that the estimated enterprise value of our radio reporting unit exceeded its carrying value. When evaluating our estimated enterprise value, we utilized an income approach which uses assumptions and estimates which among others include the aggregated expected revenues and operating margins generated by our FCC broadcasting licenses (i.e. our stations) and use of a risk adjusted discount rate. Based on our reviews it was determined that there was no impairment of goodwill for the years-ended December 31, 2021 and 2020.

(g) Cash and Cash Equivalents

Cash and cash equivalents consist of cash and money market accounts at various commercial banks. All cash equivalents have original maturities of 90 days or less.

(h) Income Taxes

We file a consolidated federal income tax return for substantially all of our domestic operations. We are also subject to foreign taxes on our Puerto Rico operations. We account for income taxes under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry-forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled and are respectively classified as noncurrent assets or noncurrent liabilities. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of 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. If the realization of deferred tax assets in the future is considered more likely than not, an adjustment to the deferred tax assets would increase net income in the period such determination is made. Based upon the level of historical taxable income and projections for future taxable income over the periods which the deferred tax assets are deductible, at this time, management believes it is more likely than not that we will not realize the benefits of the majority of these deductible differences. As a result, we have established and maintained a valuation allowance for that portion of the deferred tax assets we believe will not be realized. The Company's accounting policy is to not record the amount of NOL carry-forwards that will expire due to Section 382 limitations. We account for uncertain tax positions which require that a position taken or expected to be taken in a tax return be recognized in the financial statements when it is more likely than not (a likelihood of more than 50%) that the position would be sustained upon examination by tax authorities. A recognized tax position is then measured at the largest amount of benefit that is greater than 50% likely of being realized upon ultimate settlement. Interest and penalties on tax liabilities, if any, would be recorded in interest expense and other noninterest expense, respectively (see Note 11).

The Company has generated tax credits from the production of programming content that can be used to reduce imposed income tax or other tax liabilities. These tax credits can be claimed in the tax year in which the activities covered by the tax credit commenced. The tax credits are non-refundable but are transferable to third parties if not used by the Company. It is the Company's policy to routinely review the timing of the estimated realization of recorded tax credits and how these tax credits should be utilized. Although these tax credits had previously been sold to third parties, Management's intent is to use these tax credits to offset its future income tax liabilities in Puerto Rico. For the years ended December 31, 2021 and 2020, the Company reclassified $4.9 million and $0.4 million, respectively, of tax credits as an offset to deferred tax liability on its balance sheet. Changes in tax legislation may lead the Company to elect to use these tax credits differently in the future.

(i) Advertising Costs

We incur advertising costs to add and maintain listeners. These costs are charged to expense in the period incurred. Cash advertising costs amounted to $1.1 million during the years ended December 31, 2021 and 2020.

(j) Contingent Liabilities and Gains

Accounting standards require that an estimated loss from a loss contingency shall be accrued when information available prior to the issuance of the financial statements indicate that it is probable that an asset has been impaired or a liability has been incurred at the date of the financial statements and when the amount of the loss can be reasonably estimated. Accounting for contingencies such as legal and income tax matters requires us to use our judgment. We believe that our accruals for these matters are adequate. Contingencies that might result in gains are disclosed but not reflected in the financial statements until realization has occurred.

(k) Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Significant items subject to such estimates and assumptions include the allowance for doubtful accounts, the realization of deferred tax assets, the useful lives and future cash flows used for testing the recoverability of property and equipment, the recoverability of FCC broadcasting licenses, and goodwill, the recoverability of right-of-use assets, the fair value of Level 2 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. Actual results could differ from these estimates.

The COVID-19 pandemic created significant uncertainty and disruption in the global economy. It is possible that these uncertainties could 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.

(l) Concentration of Business and Credit Risks

Financial instruments that potentially subject us to concentrations of risk include primarily cash and trade receivables. We place our cash with highly rated credit institutions. Although we try to limit the amount of credit exposure with any one financial institution, we do in the normal course of business maintain cash balances in excess of federally insured limits.

Our operations are conducted in several markets across the United States, including Puerto Rico. Our New York, Los Angeles, and Miami radio markets accounted for more than 65% and 70% of net revenue for the years ended December 31, 2021 and 2020, respectively. Our credit risk is spread across a large number of diverse customers in a number of different industries, thus spreading the trade credit risk. We do not normally require collateral on credit sales; however, a credit analysis is performed before extending substantial credit to any customer and occasionally we request payment in advance. We establish an allowance for doubtful accounts based on customers’ payment history and perceived credit risks.

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

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

	Twelve Months Ended December 31,					
	2021			2020		
	Class A	Class B	Series C	Class A	Class B	Series C
Basic net income (loss) per share:						
Numerator						
Allocation of undistributed earnings	$ 1,029	$ 530	$ 172	$ (14,512)	$ (8,007)	$ (2,600)
Denominator						
Number of shares used in per share computation (as converted)	4,545	2,340	760	4,242	2,340	760
Basic net income (loss) per share	$ 0.23	$ 0.23	$ 0.23	$ (3.42)	$ (3.42)	$ (3.42)
Diluted net income (loss) per share:						
Numerator						
Allocation of undistributed earnings	$ 1,029	$ 530	$ 172	$ (14,512)	$ (8,007)	$ (2,600)
Denominator						
Number of shares used in basic computation	4,545	2,340	760	4,242	2,340	760
Weighted-average impact of dilutive equity instruments	75	—	—	—	—	—
Number of shares used in per share computation (as converted)	4,620	2,340	760	4,242	2,340	760
Diluted net income (loss) per share	$ 0.22	$ 0.23	$ 0.23	$ (3.42)	$ (3.42)	$ (3.42)
Common stock equivalents excluded from calculation of diluted net income (loss) per share as the effect would have been anti-dilutive:	460	—	—	381	—	—

In conjunction with the settlement of 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 year ended December 31, 2021, the Company issued 771,797 shares of Class A common stock to the Settling 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 income (loss) per share as of December 31, 2021.

(n) Fair Value Measurement

We determine the fair value of assets and liabilities using a fair value hierarchy that distinguishes between market participant assumptions developed based on market data obtained from sources independent of the reporting entity, and the reporting entity’s own assumptions about market participant assumptions developed based on the best information available in the circumstances.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, essentially an exit price. The levels of the fair value hierarchy are:

- *Level 1:* inputs are quoted prices, unadjusted, in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.
- *Level 2:* inputs are other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. A Level 2 input must be observable for substantially the full term of the asset or liability.
- *Level 3:* inputs are unobservable and reflect the reporting entity’s own assumptions about the assumptions that market participants would use in pricing the asset or liability.

(o) Share-Based Compensation Expense

We account for our share-based compensation expense based on the estimated grant date fair value method using the Black-Scholes option pricing model. For these awards, we have recognized compensation expense using a straight-line amortization method (prorated). Share-based compensation expense is based on awards that are ultimately expected to vest. Share-based compensation for the years ended December 31, 2021 and 2020 were reduced for estimated forfeitures. When estimating forfeitures, we consider voluntary termination behaviors, as well as trends of actual option forfeitures.

(p) Leasing (Operating Leases)

We analyze if contracts are leases or contain leases at inception. Our analysis includes determining whether the right to control the use of an identified asset for a period of time in exchange for consideration has been transferred to the Company. The term of each lease is determined based on the noncancellable period specified in the agreement together with renewal periods which would provide the Company the option to extend the lease and it were reasonably certain that the Company would exercise that option, as well as that it is also reasonably certain that the lessor would not preclude the Company from doing so. The lease liabilities and the related right-of-use assets are calculated based on the present value of the lease payments using the lessee's incremental borrowing rate ("IBR"), if the rate is not defined in the contract. IBR is defined as the rate of interest that the Company would have to pay to borrow an amount equal to the lease payments, on a collateralized basis, over a similar term.

(q) Segment Reporting

Accounting standards establish the way public business enterprises report information about operating segments in annual financial statements and require those enterprises to report selected information about operating segments in interim financial reports issued to stockholders. Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision-maker in deciding how to allocate resources and in assessing performance. We have two reportable segments: radio and television (see Note 13).

(r) Deferred Financing Costs

Deferred financing costs relates to our 9.75% Senior Secured Notes due 2026 and our New Revolving Credit Facility (see note 7) and are reflected as a direct carrying amount of the related long-term debt. Deferred financing costs are being amortized to interest expense over the term of the related debt using the effective interest method.

(3) 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 years ended 2021 and 2020 (in thousands):

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

Nature of Products and Services

(a) Local, national, digital and network advertising

Local and digital revenues generally consist of advertising airtime sold in a station's local market, the Company's La Musica application or its websites either directly to the advertiser or through an advertiser's agency. Local revenue includes local spot sales, integrated sales, sponsorship sales and paid-programming (or infomercials). National revenue generally consists of advertising airtime sold to agencies purchasing advertising for multiple markets. National sales are generally facilitated by an outside national representation firm, which serves as an agent in these transactions. Revenues from national advertisers are presented as net of agency commissions as this is the amount that the Company expects to be entitled to receive in exchange for these services and entitled to under the contract. Network revenue generally consists of advertising airtime sold on the AIRE Radio Networks platform by network sales staff.

A contract for local, national, digital and network advertising exists only at the time commercial substance is present. For each contract, the Company considers the promise to air or display advertisements, each of which is distinct, to be the identified performance obligation. The price as specified on a customer purchase order is considered the standalone selling price as it is an observable input which depicts the price as if sold to a similar customer in similar circumstances. Revenue is recognized when control is transferred to the customer (i.e. when the Company's performance obligation is satisfied), which typically occurs as an advertisement airs or appears.

(b) Special events

Special events revenue is generated from ticket sales, as well as through profit-sharing arrangements for producing or co-producing live concerts and events promoted by radio and television stations.

In addition to ticket sales, the Company enters into profit-sharing arrangements to produce or co-produce live concerts and events with partners which may also purchase various production services from the company. These contracts include multiple promises that the Company evaluates to determine if the promises are separate performance obligations. Once the Company determines the performance obligations and the transaction price, including estimating the amount of variable consideration, the Company then allocates the transaction price to each performance obligation in the contract based on a relative stand-alone selling price method or using the variable consideration allocation exception if the required criteria are met. The corresponding revenues are recognized as the related performance obligations are satisfied, which may occur over time (i.e. term of agreement) or at a point in time (i.e. event completion). In order to determine if revenue should be reported gross as principal or net as agent, the Company considers indicators such as if it is the party primarily responsible for fulfillment, has inventory risk, and has discretion in establishing price to determine control. When management determines it controls an event, it is acting as the principal and records revenue gross. When management determines it does not control an event, it is acting as an agent and records revenue net.

(c) Barter advertising

Barter sales agreements are used to reduce cash paid for operating costs and expenses by exchanging advertising airtime for goods or services.

A contract for barter advertising exists only at the time commercial substance is present. For each contract, the Company considers the promise to air or display advertisements, each of which is distinct, to be the identified performance obligation. The price as specified on a counterparty's purchase order is considered the standalone selling price as it is an observable input which depicts the price as if sold to a similar customer in similar circumstances. Revenue is recognized when control is transferred to the customer (i.e. when the Company's performance obligation is satisfied), which typically occurs as an advertisement airs or displays.

For the years ended December 31, 2021 and 2020, barter revenue of \$6.4 million and \$5.7 million was offset by barter expense of \$6.3 million and \$5.4 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 years ended December 31, 2021 and 2020, there were \$0.5 million and \$0.3 million of local, national, digital and network revenue recognized that were included in the unearned revenue balances at the beginning of each period, respectively. During the years ended December 31, 2021 and 2020, there were \$0.3 million of special events revenue recognized that were included in the unearned balances at the beginning of each period, respectively. During years ended December 31, 2021 and 2020, there were \$0.1 million and \$0.3 million of barter revenue that were included in the unearned revenue balances at the beginning of each period, respectively. Other revenue recognized during the years ended December 31, 2021 and 2020, that were included in unearned revenue balances at the beginning of each period were not significant. At December 31, 2021 there was \$1.4 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 at December 31, 2020. Variable consideration in the form of agency based volume discounts of \$1.4 million and \$1.3 million were recognized and recorded as contract liabilities within accrued expenses during the years ended December 31, 2021 and 2020, respectively.

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.

(4) Leases

The Company has commitments under operating leases for office space and radio tower sites used in its operations. Our leases have initial lease terms that expire between 2022 and 2082, most of which include options to extend or renew the leases. Currently, we do not have finance leases. The Company determines if an arrangement is a lease at contract inception. A lease exists when a contract conveys to the customer the right to control the use of identified property, plant, or equipment for a period of time in exchange for consideration. The definition of a lease embodies two conditions: (1) there is an identified asset in the contract that is land or a depreciable asset (i.e. property, plant, and equipment), and (2) the customer has the right to control the use of the identified asset.

Certain rental agreements for office space and radio towers contain non-lease components such as common area maintenance and utilities. The Company elected to apply the practical expedient that permits lessees to make an accounting policy election to account for each separate lease component of an office space and radio tower lease contract and its associated non-lease components as a single lease component. Certain rental agreements for office space and radio towers also include taxes and insurance which are not considered lease components.

Consideration for office space and radio tower site leases generally includes fixed monthly payments. The lease term begins at the commencement date and is determined on that date based on the term of the lease, together with periods covered by an option to extend the lease if the Company is reasonably certain to exercise that option. When evaluating whether the Company is reasonably certain to exercise an option to renew the lease, the Company is required to assess all relevant factors that create an economic incentive for the Company to exercise the renewal.

The various discount rates are based on the Company’s incremental borrowing rate due to the rate implicit in the leases being not readily determinable. The Company’s incremental borrowing rate is the rate of interest that the Company would have to pay to borrow on a collateralized basis over a similar term an amount equal to the lease payments in a similar economic environment. The Company used publicly available information about low-grade debt, adjusted for the effects of collateralization, to determine the various rates it would pay to finance transactions over similar time periods.

The Company elected to apply a package of practical expedients that allows it not to reassess (i) whether any expired or existing contracts are or contain leases, (ii) lease classification for any expired or existing leases, and (iii) initial direct costs for any expired or existing leases.

The following table summarizes the components of lease cost for the years ended December 31, 2021 and 2020 (in thousands):

	Year Ended December 31,	
	2021	**2020**
Operating lease cost	$ 4,251	$ 4,018
Sublease income	(171)	(343)
Total lease cost	$ 4,080	$ 3,675

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

	Year Ended December 31, 2021		Year Ended December 31, 2020	
Operating Leases:				
Operating lease right-of-use assets	$	19,770	$	20,509
Operating lease liabilities - current		1,075		824
Operating lease liabilities - net of current portion		20,624		21,023
Total operating lease liabilities	$	21,699	$	21,847
Other information:				
Operating cash flows from operating leases	$	3,544	$	2,632
Right-of-use assets obtained in exchange for new lease liabilities	$	815	$	4,213
Weighted-average remaining lease term		13.9 years		14.7 years
Weighted average discount rate		12.5%		12.6%

Future minimum lease payments under operating leases as of December 31, 2021 are as follows (in thousands):

Year ending December 31:		
2022	$	3,688
2023		3,518
2024		3,686
2025		3,695
2026		3,677
Thereafter		34,993
Total undiscounted lease payments	$	53,257
Less: imputed interest		31,588
Total lease liabilities	$	21,669

We have agreements to sublease our radio frequencies and portions of our tower sites and buildings. Such agreements provide for payments through 2024. Future minimum rental income to be received under these agreement as of December 31, 2021 is as follows:

Year ending December 31:		
2022	$	138
2023		124
2024		117
Total undiscounted lease payments	$	379

(5) Property and Equipment, Net

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

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

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

(6) Accounts Payable and Accrued Expenses

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

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

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

a) New $ 310 million Senior Secured Notes Due 2026

On February 17, 2021, the Company completed its private offering of $310.0 million aggregate principal amount of its 9.75% Senior Secured Notes due 2026 (the "Notes"). Interest on the Notes accrues at the rate of 9.75% per annum and is payable semi-annually in arrears on March 1 and September 1 of each year, beginning on September 1, 2021. The Notes will mature on March 1, 2026, unless earlier redeemed or repurchased. Prior to September 1, 2023, the Company will be subject to certain premiums, as defined in the Indenture, for certain optional redemption of some or all of the Notes. 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 several 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. At December 31, 2021, the Company had no events of default under the Indenture.

The Company incurred recapitalization costs of $0.4 million and $4.7 million for the years ended December 31, 2021 and 2020, respectively, which consisted primarily of professional fees, settlements, severance pay and station relocation costs directly related to our recapitalization efforts. Also included in these amounts are the legal and financial advisory fees incurred by the holders of the Notes.

b) New Revolving Credit Facility

Concurrently with the completion of the Notes offering, we entered into a senior secured asset-based revolving credit facility (the "Revolver"), providing for borrowings of up to $15.0 million subject to compliance with a "borrowing base." We intend to use borrowings under the Revolver, if necessary, to finance working capital needs and other general corporate purposes. As of December 31, 2021, the availability under the Revolver was $15.0 million.

At the Company's election, the interest rate on borrowings under the Revolver 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). As of December 31, 2021 the interest rate on the Revolver was either (i) LIBOR plus a margin of 2.25% or (ii) the base rate plus a margin of 1.25%.

All obligations under the Revolver 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.

c) 12.5% Senior Secured Notes due 2017

On February 7, 2012, we closed our offering of $275 million in aggregate principal amount of our 2017 Notes. The 2017 Notes matured on April 17, 2017, 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 2017 Notes. The 2017 Notes accrued interest at a rate of 12.5% per year and from April 17, 2017 to February 17, 2021, we paid interest monthly.

The Company fully repaid the outstanding 2017 Notes balance on February 17, 2021, with proceeds from the Notes.

(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) or 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 reserved the 1,939,365 (adjusted for fractional shares) shares of Class A Common Stock and will issue to each Selling Series B Preferred Stockholder their pro rata shares subject to receipt of appropriate certifications and/or requisite regulatory approval. As of December 31, 2021, the Company has issued 771,797 shares of the reserved Class A common stock to various Settling Series B Preferred Holders in accordance with the terms and conditions of the Series B Purchase Agreement. With respect to the remaining 5.84%, or 5,283 shares, of Series B Preferred Stock, on March 18, 2021, we redeemed such shares of Series B Preferred Stock for $11.5 million, 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.

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 discussed below.

The Company has recognized a gain of $118.7 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 December 31, 2021 (in thousands):

		December 31, 2021
Series B Carrying Value of Selling Group	$	184,618
Less: fair value of equity securitues granted		7,660
Net carrying value	$	176,958
Less: current year cash payments, including direct expenses		57,862
Less: prior year cash payments, including direct expenses		405
Gain on repurchase of Selling Series B preferred stock	$	118,691

(9) Stockholders' Equity

(a) Series C Convertible 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. 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.

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 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.

(b) Class A and B Common Stock

The rights of the Class A common stockholders and Class B common stockholders are identical except with respect to their voting rights and conversion provisions. The Class A common stock is entitled to one vote per share and the Class B common stock is entitled to ten votes per share. The Class B common stock is convertible to Class A common stock on a share-for-share basis at the option of the holder at any time, or automatically upon a transfer of the Class B common stock to a person or entity which is not a permitted transferee (as described in our Charter). Holders of each class of common stock are entitled to receive dividends and, upon liquidation or dissolution, are entitled to receive all assets available for distribution to stockholders. Neither the holders of the Class A common stock nor the holders of the Class B common stock have preemptive or other subscription rights, and there is no redemption or sinking fund provisions with respect to such shares. Each class of common stock is subordinate to our Series B preferred stock. The Series B preferred stock has a liquidation preference of $1,000 per share and is on parity with the Series C preferred stock with respect to dividend rights and rights upon liquidation, winding up and dissolution of SBS.

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

2006 Omnibus Equity Compensation Plan

In July 2006, we adopted an omnibus equity compensation plan (the "Omnibus Plan") in which grants of Class A common stock can be made to participants in any of the following forms: (i) incentive stock options, (ii) nonqualified stock options, (iii) stock appreciation rights, (iv) stock units, (v) stock awards, (vi) dividend equivalents, and (vii) other stock-based awards. The Omnibus Plan authorizes up to 350,000 shares of our Class A common stock for issuance, subject to adjustment in certain circumstances. The Omnibus Plan provides that the maximum aggregate number of shares of Class A common stock units, stock awards and other stock-based awards that may be granted, other than dividend equivalents, to any individual during any calendar year is 100,000 shares, subject to adjustments. The Omnibus Plan expired on July 17, 2016 and no further share-based awards can be granted under this plan.

Other Share-Based Compensation

In January 2019, the Company also issued options to purchase 75,000 shares of the Company's Class A Common Stock to another individual as an inducement to his taking a position with the Company. The 2019 options vest over a three-year period and have a ten-year term commencing on their vesting dates. In November 2021, the Company also issued options to purchase 50,000 shares of the Company's Class A Common Stock to each of four independent board members. The 2021 options vest over a four-year period and have a ten-year term commencing on their vesting dates. These grants were outside of the Company's 2006 Omnibus Plan and issued as non-qualified stock options.

Accounting for Share-Based Compensation

We recognize share-based compensation expense based on the estimated grant date fair value method using the Black-Scholes option pricing model. For these awards, we have recognized compensation expense using a straight-line amortization method (prorated). Share-based compensation expense is based on awards that are ultimately expected to vest. Share-based compensation for the years ended December 31, 2021 and 2020 was reduced for estimated forfeitures. When estimating forfeitures, we consider voluntary termination behaviors, as well as trends of actual option forfeitures. For the years ended December 31, 2021 and 2020, share-based compensation totaled $37 thousand and $4 thousand, respectively.

As of December 31, 2021, there was $1.0 million of total unrecognized compensation costs related to nonvested stock-based compensation arrangements granted. The cost is expected to be recognized over a weighted average period of approximately 3.9 years.

Accounting standards require that cash flows resulting from excess tax benefits be classified as a part of cash flows from financing activities. Excess tax benefits are realized tax benefits related to tax deductions for exercised options in excess of the deferred tax asset attributable to stock compensation costs for such options.

During the year ended December 31, 2021, 85,000 stock options were exercised for which cash payments in the amount of $10 thousand were received and no stock options were exercised in 2020.

Valuation Assumptions

We calculated the fair value of each option award on the date of grant using the Black-Scholes option pricing model. The per share weighted average fair value of the stock options granted to employees during 2021 was $5.06 and there were no stock options granted to employees during 2020. The following weighted average assumptions were used for 2021:

	2021
Expected term	7.82
Dividends to common stockholders	None
Risk-free interest rate	1.48%
Expected volatility	190.76

Our computation of expected volatility for the year ended December 31, 2021 was based on a combination of historical and market-based implied volatility from traded options on our stock. Our computation of expected term in 2021 was determined based on historical experience of similar awards, giving consideration to the contractual terms of the stock-based awards, vesting schedules and expectations of future employee behavior. The information provided above results from the behavior patterns of separate groups of employees that have similar historical experience. The interest rate for periods within the contractual life of the award is based on the U.S. Treasury yield curve in effect at the time of grant.

Stock Options

Stock options have only been granted to employees or directors. Our stock options have various vesting schedules and are subject to the employees' continuing service. A summary of the status of our stock options, as of December 31, 2021 and 2020, and changes during the years ended December 31, 2021 and 2020, is presented below (in thousands, except per share data and contractual life):

	Shares	Weighted Average Exercise Price	Aggregate Intrinsic Value	Weighted Average Remaining Contractual Life (Years)
Outstanding at December 31, 2019	435	$ 2.84		
Granted	—	—		
Exercised	—	—		
Forfeited	(15)	11.10		
Outstanding at December 31, 2020	420	$ 2.54		
Granted	200	5.10		
Exercised	(85)	2.76		
Forfeited	—	—		
Outstanding at December 31, 2021	535	$ 3.47	$ 841,075	6.8
Exercisable at December 31, 2021	335	$ 2.49	$ 841,075	5.0

The following table summarizes information about our stock options outstanding and exercisable at December 31, 2021 (in thousands, except per share data and contractual life):

Range of Exercise Prices	Vested Options	Unvested Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Options Exercisable	Weighted Average Exercise Price
$0.22 - 0.99	75	—	$ 0.22	8.6	75	$ 0.22
1.00 - 1.99	—	—	—	—	—	—
2.00 - 2.99	—	—	—	—	—	—
3.00 - 4.99	260	—	3.14	3.9	260	3.14
5.00 - 9.99	—	200	5.10	9.9	—	—
	335	200	$ 3.47	6.8	335	$ 2.49

(10) Commitments and Contingencies

(a) Employment and Service Agreements

At December 31, 2021, we are committed to employment and service contracts for certain executives, on-air talent, general managers, and others expiring through 2026. Future payments under such contracts are as follows (in thousands):

Year ending December 31:	
2022	$ 11,427
2023	6,227
2024	4,315
2025	2,391
2026	978
	$ 25,338

(b) Other Commitments

At December 31, 2021, we have commitments to vendors that provide us with goods or services. These commitments included services for rating services, programming contracts, software contracts and others expiring through 2028. Future payments under such commitments are as follows (in thousands):

Year ending December 31:	
2022	$ 9,562
2023	6,445
2024	6,182
2025	6,101
2026	6,283
Thereafter	6,518
	$ 41,091

(c) Contingencies - 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.

(d) Litigation

From time to time, we are involved in various routine legal and administrative proceedings and litigation incidental to the conduct of our business, such as contractual matters and employee-related matters. In the opinion of management, such litigation is not likely to have a material adverse effect on our business, operating results or financial condition.

(11) Income Taxes

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

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

For the years ended December 31, 2021 and 2020, loss before income tax (benefit) expense consists of the following (in thousands):

	2021	2020
U.S. operations	$ 6,644	$ (28,169)
Foreign operations	(1,330)	661
	$ 5,314	$ (27,508)

The components of the provision for income tax (benefit) expense from continuing operations included in the consolidated statements of operations are as follows for the years ended December 31, 2021 and 2020 (in thousands):

	2021	2020
Current:		
Federal	$ 3,957	$ 72
State and local, net of federal income tax benefit	1,448	249
Foreign	547	(1,055)
	5,952	(734)
Deferred:		
Federal	(1,539)	(2,517)
State and local, net of federal income tax benefit	(517)	(1,710)
Foreign	(313)	2,572
	(2,369)	(1,655)
Total income tax expense (benefit) from continuing operations	$ 3,583	$ (2,389)

For the year ended December 31, 2021 and 2020, approximately $0.1 million and $3.1 million, respectively, of Puerto Rico NOL carry-forwards were utilized. For the year ended December 31, 2021 and 2020, $6.6 million and $10.8 million, respectively, federal NOL carry-forwards were utilized. Additionally, for the year ended December 31, 2021 and 2020, approximately, $1.0 million and $1.2 million, respectively, of Puerto Rico film tax credits were utilized.

The tax effect of temporary differences and carry-forwards that give rise to deferred tax assets and deferred tax liabilities at December 31, 2021 and 2020 are as follows (in thousands):

	2021	2020
Deferred tax assets:		
Federal and state NOL carry-forwards	$ 15,252	$ 28,069
Foreign NOL carry-forwards	5,612	5,622
FCC licenses	6,812	6,812
Allowance for doubtful accounts	2,175	2,046
Unearned revenue	452	311
AMT credit	1,495	1,479
Interest disallowance	13,669	10,133
Property and equipment	2,462	2,163
Accrued foreign withholding	3,053	2,873
Production costs	5,922	5,794
Stock-based compensation	128	118
Intercompany expenses	10,449	9,288
Accrued Vacation/Bonus/Payroll	885	747
Right of use liability	6,289	6,466
Puerto Rico film credits	5,365	415
Other	2,599	1,862
Total gross deferred tax assets	82,619	84,198
Less valuation allowance	(51,538)	(59,613)
Net deferred tax assets	31,081	24,585
Deferred tax liabilities:		
FCC licenses and goodwill	82,122	82,587
Right of use asset	5,731	6,074
Total gross deferred tax liabilities	87,853	88,661
Net deferred tax liability	$ 56,772	$ 64,076

The net change in the total valuation allowance for the years ended December 31, 2021 and 2020 was a decrease of $8.1 million and an increase of $2.1 million, respectively. The valuation allowance at 2020 was primarily related to domestic pre tax reform carry-forwards, future deductible amounts related to the excess tax basis over the book basis of certain FCC broadcasting licenses, intercompany expenses, production costs, and other various items. The valuation allowance at 2021 was primarily related to domestic net operating loss and interest carry-forwards. In 2021, the overall decrease in the valuation allowance was a result of the adjustment of NOLs due to limitations under Section 382 and partial release of valuation allowance on certain deferred tax assets due to a change in the future realizability of the deferred tax asset.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of 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. Management also considered the company's going concern as part of their assessment. As of December 31, 2021, the valuation allowance is comprised of $25.7 million in the US and $25.9 million in Puerto Rico. If the realization of deferred tax assets in the future is considered more likely than not, an adjustment to the deferred tax assets would increase net income in the period such determination is made.

Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, at this time, management believes it is more likely than not that we will not realize the benefits of the net operating losses and a portion of the post reform interest disallowance. As a result, we have established and maintained a valuation allowance for that portion of the deferred tax assets we believe will not be realized. At December 31, 2021, we have federal and state NOL carry-forwards available of approximately $53.2 million and $52.5 million, respectively. A portion of these NOL carry-forwards available to offset future taxable income were generated pre-tax reform and therefore expire from the years 2022 through 2037.

As a result of the restructuring discussed, the Company underwent ownership changes (pursuant to Section 382) in 2021. As a result of the 2021 ownership change, the Company reduced its NOL carry-forwards by $6.9 million as of December 31, 2021 because of ownership changes under Section 382, all of which was adjusted against the corresponding valuation allowance. Therefore, there was no impact to our income statement or balance sheet. Total income tax (benefit) expense from continuing operations differed from the amounts computed by applying the U.S. federal income tax rate of 21.0% for the years ended December 31, 2021 and 2020, as a result of the following:

	2021		2020	
Computed “expected” tax (benefit) expense	21.0	%	21.0	%
State and local income taxes, net of federal benefit	12.0		5.0	
Foreign tax differential	(3.2)		(0.5)	
Prior year adjustment	189.2		—	
Current year change in valuation allowance	(142.9)		2.6	
Nondeductible interest expense	5.2		(7.4)	
US GILTI tax inclusion	2.9		—	
Non-deductible recapitalization costs	1.1		(3.6)	
U.S. 162(m) limitation	10.9		(0.9)	
Meals and entertainment disallowance	1.4		(0.2)	
Puerto Rico management fee	—		(0.1)	
Change in effective rate	(12.9)		2.4	
Return to provision	(20.9)		(8.7)	
Puerto Rico withholding taxes	3.4		(0.7)	
Other	0.1		(0.2)	
	67.3	%	8.7	%

The 2021 ownership change impacts the Company’s NOL carryover, disallowed interest expense carryover and valuation allowance. Net operating losses and disallowed interest expense carryovers are now limited which limits the future realizability of those assets, therefore a valuation allowance was recorded against those assets. Additionally, the company reassessed the realizability on their remaining deferred tax assets and released their valuation allowance specific to those assets. The Company impaired intangible assets in 2020, which significantly reduced pre-tax book income. The impairment is non-deductible for tax purposes, therefore resulting in an unfavorable adjustment.

U.S. Federal jurisdiction and the jurisdictions of Florida, New York, California, Illinois, Texas and Puerto Rico are the major tax jurisdictions in which 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 2019 through 2020. The tax years that remain subject to assessment of additional liabilities by the Puerto Rico tax authority are 2013 through 2020.

For the years ended December 31, 2021 and 2020, we did not have any unrecognized tax benefits as a result of tax positions taken during a prior period or during the current period. No interest or penalties have been recorded as a result of tax uncertainties. Our evaluation was performed for the tax years ended December 31, 2019 through December 31, 2020, which are the tax years that remain subject to examination by the tax jurisdictions as of December 31, 2021. We do not expect any unrecognized tax benefits to significantly change over the next twelve months.

(12) Fair Value Measurement Disclosures

(a) Fair Value of Financial Instruments

Cash and cash equivalents, receivables, as well as accounts payable and accrued expenses, and other current liabilities, as reflected in the consolidated financial statements, approximate fair value because of the short-term maturity of these instruments. The estimated fair value of our other long-term debt instruments, approximate their carrying amounts as the interest rates approximate our current borrowing rate for similar debt instruments of comparable maturity, or have variable interest rates.

Fair 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:

		December 31, 2021	
Description	**Fair Value Hierarchy**	**Carrying Amount**	**Fair Value**
9.75% senior secured notes due 2026 (Note 7)	Level 2	$ 310.0	$ 321.4

(13) Segment Data

The following summary table presents separate financial data for each of our operating segments. The accounting applied to determine the segment information are generally the same as those described in the summary of significant accounting polices (see Note 2(q)). We evaluate the performance of our operating segments based on separate financial data for each operating segment as provided below (in thousands):

	Year Ended December 31, 2021	Year Ended December 31, 2020
Net revenue:		
Radio	$ 132,894	$ 104,255
Television	12,875	17,684
Consolidated	$ 145,769	$ 121,939
Engineering and programming expenses:		
Radio	$ 22,268	$ 19,511
Television	9,316	6,952
Consolidated	$ 31,584	$ 26,463
Selling, general and administrative expenses:		
Radio	$ 51,123	$ 47,086
Television	6,072	5,911
Consolidated	$ 57,195	$ 52,997
Corporate expenses:	$ 14,740	$ 8,533
Depreciation and amortization:		
Radio	$ 1,423	$ 1,628
Television	1,312	1,385
Corporate	393	248
Consolidated	$ 3,128	$ 3,261
(Gain) loss on the disposal of assets, net:		
Radio	$ (7)	$ 68
Television	(169)	(3,329)
Corporate	—	—
Consolidated	$ (176)	$ (3,261)
Recapitalization costs:		
Radio	$ —	$ —
Television	—	—
Corporate	420	4,679
Consolidated	$ 420	$ 4,679
Impairment charges:		
Radio	$ —	$ 14,352
Television	—	—
Corporate	—	—
Consolidated	$ —	$ 14,352
Other operating (income) expenses:		
Radio	$ 137	$ 1,139
Television	20	(37)
Corporate	(76)	—
Consolidated	$ 81	$ 1,102
Operating income (loss):		
Radio	$ 57,950	$ 20,471
Television	(3,676)	6,802
Corporate	(15,477)	(13,460)
Consolidated	$ 38,797	$ 13,813

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

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

(14) 401(k) Profit-Sharing Plan

In September 1999, we adopted a tax-qualified employee savings and retirement plan (the "401(k) Plan"). We can make matching and/or profit-sharing contributions to the 401(k) Plan on behalf of all participants at our sole discretion. All full-time employees are eligible to voluntarily participate in the 401(k) Plan after their 90 day introductory period. To date, we have not made contributions to this plan.

(15) Impairment of FCC Broadcasting Licenses

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

The Company performs valuations using the discounted cash flow methodology. This income approach consists of a quantitative model, which assumes the FCC broadcasting licenses are acquired and operated by a third-party. This valuation method is based on the premise that the only asset that an unbuilt start-up station possesses is the FCC broadcasting license. Such method isolates the income attributable to an FCC broadcasting license by modeling a hypothetical greenfield build-up to a normalized enterprise that, by design, lacks inherent goodwill and whose only other assets have essentially been paid for as part of the build-up process. Consequently, the resulting accretion in value is solely attributed to the FCC broadcasting license.

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

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

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

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

As a result of the first quarter interim impairment test, the Company determined that there was an impairment to various of its radio FCC broadcasting licenses, primarily due to the discount rate increase and lower industry advertising revenue growth projections in the subject markets due to COVID-19. The Company recorded a non-cash impairment loss of approximately $14.1 million that reduced the carrying value of such FCC broadcasting licenses as of March 31, 2020. During the fourth quarter of 2020, the Company performed its annual impairment test and concluded that there were no further impairments.

(16) Coronavirus Aid, Relief, and Economic Security Act (CARES Act) and American Rescue Plan Act

(a) Paycheck Protection Program (the "PPP") Loans

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 Paycheck Protection Program (the "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 Latino communities. The funds were utilized in their entirety to pay for and maintain employment and compensation levels and pay benefits during the second quarter of 2020 as required by the CARES Act for the loan to be forgiven. For the year-ended December 31, 2020, station operating, and corporate expenses included the $6.5 million of PPP proceeds received as a direct offset and reduction to the related eligible compensation and benefits expenses and were allocated as follows: $5.1 million to the radio segment, $0.8 million to the television segment and $0.6 million to corporate expenses. Additionally, during the year-ended December 31, 2020, the Company recognized the $6.5 million cash impact of the PPP Loan within cash flows from operations on its consolidated statement of cash flows as the nature of the expenses for which the loan was used are operational in nature. 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 during the quarter ended June 30, 2021 was granted a Second Draw PPP Loan in the amount of $2.0 million, which was utilized to pay for and maintain employment and compensation levels as required by the CARES Act for the loan to be forgiven. As in the prior year, the Company has accounted for the PPP Loan under International Accounting Standard 20 *Accounting for Government Grants and Disclosure of Government Assistance* ("IAS 20") as the Company believed it had met the eligibility criteria and that the PPP loan represents, in substance, a grant that is expected to be forgiven as it has used the proceeds to maintain employment and compensation levels and pay benefits and in accordance with the IAS 20 guidance. On December 22, 2021, the SBA informed the Company that its Paycheck Protection Program Loan of $2.0 million had been forgiven in its entirety.

For the year-ended December 31, 2021, engineering, programming, selling, general and administrative, and corporate expenses included the $2.0 million of Second Draw PPP proceeds received as a direct offset and reduction to the related eligible compensation and benefits expenses and were allocated as follows: $1.6 million to the radio segment, $0.3 million to the television segment and $0.1 million to corporate expenses. Additionally, during the year-ended December 31, 2021, the Company recognized the $2.0 million cash impact of the PPP Loan within cash flows from operations on its consolidated statement of cash flows as the nature of the expenses for which the loan was used are operational in nature.

(b) Employee Retention Credit (ERC)

The Employee Retention Credit (the “ERC”) was established by the CARES Act, P.L. 116-136, in March 2020. It was intended to help businesses retain their workforces and avoid layoffs during the coronavirus pandemic. It provides a per employee credit to eligible businesses based on a percentage of qualified wages and health insurance benefits paid to employees. It works as a refundable payroll tax credit claimed quarterly, and it can provide reductions to payroll taxes or cash refunds. The ERC is available to both for-profit and not-for-profit (NFP) entities, but not every business is eligible. Sections 7001 and 7003 of the Family First Coronavirus Relief Act (FFCRA), states that only employers with fewer than 500 employees that provide paid sick and family leave, up to specified limits, to employees unable to work or telework due to certain circumstances related to COVID-19 may claim tax credits. In addition, two critical tests for eligibility exist — a partial or total government-ordered shutdown, or a decline in gross receipts. The decline in gross receipts test is based on a "significant" decline in gross receipts in quarters of 2020 (more than 50%) and 2021 (more than 20%) compared with the same quarters in 2019.

The CARES Act did not allow businesses that received PPP loans to also claim the ERC, but the Consolidated Appropriations Act, 2021, P.L. 116-260, which was enacted at the end of 2020, retroactively removed the limitation so entities that had applied for or received PPP loans could still get the ERC. The American Rescue Plan Act, P.L. 117-2, provided that the ERC would go through December 31, 2021; however, the ERC was terminated a quarter early by the enactment of the Infrastructure Investment and Jobs Act, P.L. 117-58, at the end of the third calendar quarter of 2021 (for entities other than recovery startup businesses under Sec. 3134(c)(2)).

The Company determined that it could claim a refundable tax credit against its share of Social Security tax equal to 70% of the qualified wages it paid to its employees after December 31, 2020 through May 27, 2021, limited to $10,000 per employee per calendar quarter in 2021. The Company filed amendments to its payroll tax returns under various Forms 941-X for ERC eligible wages during the period of January 1, 2021 through May 27, 2021 which are still pending review and acceptance by the IRS. The Company expects the IRS will review the amended returns in 2022 and return the paid taxes to the Company.

The Company has accounted for the ERC under International Accounting Standard 20 *Accounting for Government Grants and Disclosure of Government Assistance* (“IAS 20”) as the Company believes it has met the eligibility criteria as there was a significant decline in gross receipts during the test period and that the refundable payroll tax credit will be received.

For the year-ended December 31, 2021, engineering, programming, selling, general and administrative, and corporate expenses included the $4.7 million of ERC assistance benefit as a direct offset and reduction to the related eligible compensation and benefits expenses and were allocated as follows: $3.8 million to the radio segment, $0.7 million to the television segment and $0.2 million to corporate expenses. Additionally, during the year-ended December 31, 2021, the Company recognized a $4.7 million asset on its consolidated balance sheet within prepaid expenses and other current assets and its respective benefit from the ERC within cash flows from operations on its consolidated statement of cash flows as the nature of the expenses for which the assistance benefit was used are operational in nature.

(17) Related Party Transaction

(a) Local Marketing and Programming Agreements

On April 9, 2021, the Company 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 broadcast certain agreed upon programming provided by the Company on FM translator W292GE serving Miami, Florida (“the LMA Station”). The Company 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.

On April 23, 2021, the Company entered into a local programming and marketing agreement with South Broadcasting. Pursuant to the agreement, South Broadcasting agrees to broadcast certain agreed upon programming provided by the Company on WMFM(FM) and WRAZ(FM) serving Key West, Florida and Leisure City, Florida. The Company is required to pay the operating costs of the stations and in exchange, we retain all revenues from the sale of the commercial advertising time inventory. The agreement commenced on April 23, 2021 through March 31, 2022 and renews for subsequent one-year terms unless earlier terminated by the parties.

During the year ended December 31, 2021, the Company recognized expenses of $0.2 million related to the operating costs of the two stations.

(b) ***Certain Relationships***

Alessandra Alarcón, the daughter of Raúl Alarcón, our Chief Executive Officer, is employed by us as President of SBS Entertainment. Ms. Alarcón's total compensation paid during the fiscal years 2021 and 2020 was $0.3 million.

(18) Subsequent Events

Acquisition of FM Radio Station Assets

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

The purchase price is equal to $12.5 million plus or minus certain customary prorations and adjustments. At closing, the Company will pay the remaining balance, net of $1.25 million of escrowed funds, with immediately available funds. The Purchase Agreement contains customary representations, warranties and covenants. The transaction is subject to customary closing conditions, including FCC regulatory approval and expected to close on a mutually agreed business day within fifteen (15) days of the grant of the FCC Consent, unless the parties otherwise agree to a different closing date.

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 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 years ended 2021 and 2020, our radio revenue was generated primarily from the sale of local, national, network and digital advertising, and our radio segment generated 91% and 85% of our consolidated net revenue, respectively.

Our television stations and related affiliates operate under the "MegaTV" brand. During 2021, we broadcasted 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 100 hours of original programming per week. For the years ended 2021 and 2020, our television revenue was generated primarily from the sale of local advertising and paid programming and generated 9% and 15% 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.

Impact of the COVID-19 Pandemic

In March 2020, the World Health Organization declared the outbreak of COVID-19 a global pandemic. The responses by federal, state and local governments to restrict public gatherings and travel rapidly grew to include stay-at-home orders, school closures and mandatory restrictions on non-essential businesses and services adversely affected workforces, economies, and financial markets resulting in a significant economic downturn. The COVID-19 pandemic resulted in the temporary disruptions of many of our advertisers' businesses thereby impacting our core source of revenue, which had a material impact on our operations and financial condition. In 2021, the Company benefited from a general economic recovery from the COVID-19 pandemic; however, the continuing impact of subsequent COVID-19 variants may result in general economic conditions deteriorating again in the future. Although the Company has evidenced steady improvements during 2021, if local, state and federal governments or public and private entities begin to implement additional precautionary or restrictive measures in 2022 or the pandemic does not end, as the case may be, there may be material adverse effects on our business, results of operations, financial condition and cash flows.

During 2020, the Company initiated various strategies to reduce expenses and preserve cash. If the general economic conditions commence to deteriorate once again, additional cost management actions will be considered to protect our long-term financial health and ensure our ability to continue serving our viewers, listeners and advertisers.

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

Business Drivers and Financial Statement Presentation

The following discussion provides a brief description of certain key items that appear in our 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 years ended 2021 and 2020, local and digital revenue comprised 69% and 66% 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 years ended 2021 and 2020, national and network revenue comprised 25% and 23% of our gross revenues, respectively.

Our net revenue is generally determined by the advertising rates that we are able to charge and the number of advertisements that we can broadcast without jeopardizing listenership/viewership levels. Each station broadcasts a predetermined number of advertisements per hour with the actual number depending upon the format of a particular station and any programming strategy we are utilizing to attract an audience. The number of advertisements we decide to broadcast hourly is intended to maximize the station's revenue without negatively impacting its audience listener/viewer levels. While there may be shifts from time to time in the number of advertisements broadcast during a particular time of the day, the total number of advertisements broadcast on a particular station generally does not vary significantly from year to year.

Our advertising rates are primarily based on the following factors:

- a station's audience share in the demographic groups targeted by advertisers which are measured by ratings agencies, primarily Nielsen;
- the number of stations, as well as other forms of media, in the market competing for the attention of the same demographic groups;
- the supply of, and demand for, advertising time; and
- the size of the market.

Our net revenue is also affected by general economic conditions, competition and our ability to improve operations at our market clusters. Seasonal revenue fluctuations are also common in the broadcasting industry and are primarily due to variations in advertising expenditures by local and national advertisers. Our net revenue is typically lowest in the first calendar quarter of the year.

In addition to advertising revenue, we also generate revenue from barter sales, special events revenue, and other revenue.

- *Barter sales.* We use barter sales agreements to reduce cash paid for operating costs and expenses by exchanging advertising airtime for goods or services. However, we endeavor to minimize barter revenue in order to maximize cash revenue from our available airtime. For the years ended 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 year ended 2021 special event revenue was not significant and for the year ended 2020 special events revenue comprised 5% of our gross revenues.
- *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 years ended 2021 and 2020, other revenue comprised 2% of our gross revenues.

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.

Year Ended 2021 Compared to Year Ended 2020

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

	Year Ended December 31, 2021	Year Ended December 31, 2020
Net revenue:		
Radio	$ 132,894	$ 104,255
Television	12,875	17,684
Consolidated	$ 145,769	$ 121,939
Engineering and programming expenses:		
Radio	$ 22,268	$ 19,511
Television	9,316	6,952
Consolidated	$ 31,584	$ 26,463
Selling, general and administrative expenses:		
Radio	$ 51,123	$ 47,086
Television	6,072	5,911
Consolidated	$ 57,195	$ 52,997
Corporate expenses:	$ 14,740	$ 8,533
Depreciation and amortization:		
Radio	$ 1,423	$ 1,628
Television	1,312	1,385
Corporate	393	248
Consolidated	$ 3,128	$ 3,261
(Gain) loss on the disposal of assets, net:		
Radio	$ (7)	$ 68
Television	(169)	(3,329)
Corporate	—	—
Consolidated	$ (176)	$ (3,261)
Recapitalization costs:		
Radio	$ —	$ —
Television	—	—
Corporate	420	4,679
Consolidated	$ 420	$ 4,679
Impairment charges:		
Radio	$ —	$ 14,352
Television	—	—
Corporate	—	—
Consolidated	$ —	$ 14,352
Other operating (income) expenses:		
Radio	$ 137	$ 1,139
Television	20	(37)
Corporate	(76)	—
Consolidated	$ 81	$ 1,102
Operating income (loss):		
Radio	$ 57,950	$ 20,471
Television	(3,676)	6,802
Corporate	(15,477)	(13,460)
Consolidated	$ 38,797	$ 13,813

The following summary table presents a comparison of our operating results of operations for the years ended December 31, 2021 and 2020. Various fluctuations illustrated in the table are discussed below. This section should be read in conjunction with our consolidated financial statements and related notes.

	Year Ended December 31,	
	2021	2020
Net revenue	$ 145,769	$ 121,939
Engineering and programming expenses	31,584	26,463
Selling, general and administrative expenses	57,195	52,997
Corporate expenses	14,740	8,533
Depreciation and amortization	3,128	3,261
Gain on the disposal of assets	(176)	(3,261)
Recapitalization costs	420	4,679
Impairment charges	—	14,352
Other operating expenses	81	1,102
Operating income	38,797	13,813
Interest expense	(32,160)	(31,587)
Dividends on Series B preferred stock classified as interest expense	(1,323)	(9,734)
Income tax expense (benefit)	3,583	(2,389)
Net income (loss)	$ 1,731	$ (25,119)

Net Revenue

The increase in our consolidated net revenues of $23.8 million or 20% was primarily due to an increase in our radio segment. Our radio net revenue increased $28.6 million or 27% due to increases in all cash advertising revenue streams. Our television net revenue decreased $4.8 million due to lower local and national sales revenue primarily related to a decrease in political sales.

Engineering and Programming Expenses

Our consolidated engineering and programming expenses increased $5.1 million or 19% due to increases in both radio and television expenses. Radio expenses increased $2.8 million, mainly due to increases in music license fees, outside services, and a decrease in production tax credits. Television expenses increased $2.3 million primarily due to a lack production tax credits in 2021. For the year ended December 31, 2021 and 2020, consolidated engineering and programming related expenses of $31.6 million and $26.5 million, respectively, were directly offset and reduced using PPP proceeds and the ERC for eligible compensation and benefits expenses. Respectively, benefits from PPP proceeds and the ERC of $2.1 million and $1.8 million were used in radio and $0.6 million and $0.5 million in television, for the year ended December 31, 2021 and 2020.

Selling, General, and Administrative Expenses

Our consolidated selling, general and administrative expenses increased $4.2 million or 8% due to increases in both radio and television expenses. Radio expenses increased $4.0 million, primarily due to increases in commissions, rating services, barter, and prizes and contests, partially offset by decreases in special events expenses, our allowance for doubtful accounts and professional fees. Television expenses increased by $0.2 million primarily due to increases in facilities expenses, professional fees and advertising partially offset by a decrease in commissions expense. For the year ended December 31, 2021 and 2020, consolidated selling, general and administrative related expenses of $57.2 million and $53.0 million, respectively, were directly offset and reduced using PPP proceeds and the ERC for eligible compensation and benefits expenses. Respectively, benefits from PPP proceeds and the ERC of $3.3 million and $3.3 million were used in radio and $0.4 million and $0.3 million in television, for the year ended December 31, 2021 and 2020.

Corporate Expenses

Corporate expenses increased $6.2 million primarily due to increases in compensation and benefits and outside services, partially offset by a decrease in directors' and officers' insurance. For the year ended December 31, 2021 and 2020, benefits from PPP proceeds and the ERC of $0.3 million and $0.6 million, respectively, were used to offset and reduce eligible corporate compensation and benefits expenses.

Gain on the Disposal of Assets

The decrease of $3.1 million in gain on disposal of assets was primarily related to the sale of our Houston television assets in the prior year.

Recapitalization Costs

The decrease of $4.3 million in recapitalization costs was due to our successful refinancing efforts which concluded in February 2021.

Impairment Charges

The decrease in impairment charges of $14.4 million was due to having recognized impairment charges related to various of our radio FCC broadcasting licenses in the prior year during the early stages of the COVID pandemic.

Operating Income

The increase in operating income of $25.0 million was primarily due to the increase in net revenues, the lack of impairment charges during the period and the decrease in recapitalization costs, which were partially offset by increases in engineering and programming, selling, general and administrative, corporate expenses, and the decrease in gains on the disposal of assets.

Interest Expense

The decrease in interest expense of $1.1 million or 3% was primarily due to the decrease in the interest associated with the new 9.75% senior secured notes due 2026 as compared to the interest expense associated with the 12.5% senior secured notes that were previously outstanding.

Dividends on Series B Preferred Stock Classified as Interest Expense

The decrease of dividends on Series B preferred stock classified as interest expense of $8.4 million was due to the repurchase and redemption of the Series B preferred stock during the first quarter of 2021.

Amortization of Deferred Financing Costs

The increase in amortization of deferred financing costs of $1.7 million was due to the amortization of deferred financing costs, which is recognized as interest, associated with the new 9.75% senior secured notes due 2026.

Income Tax Expense (Benefit)

The company recognized income tax expense of $3.6 million in 2021 compared to an income tax benefit of $2.4 million in the 2020. The $6.0 million change from a benefit in 2020 to an expense in 2021 was primarily a result of the adjustment of NOLs due to limitations under Section 382 offset by a partial release of valuation allowance on certain deferred tax assets due to a change in the future realizability of the deferred tax asset.

Net Income (Loss)

The decrease in net loss of $26.9 million was primarily due to the increase in operating income, the reduction of the dividends on Series B preferred stock which were previously classified as interest expense and the reduction of interest expense, which were partially offset by increases in income tax expense and the amortization of deferred financing costs.

Liquidity and Capital Resources

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

- 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 originally 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; to date 771,797 shares of the reserved Class A common stock have been issued. 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 a new senior secured asset-based revolving credit facility, providing 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 SBA informed the Company that both the previously granted Paycheck Protection Program Loan of $6.5 million and the Second Draw PPP Loan in the amount of $2.0 million had been forgiven in their entirety, which were both utilized to pay for and maintain employment and compensation levels as required by the CARES Act for the loans to be forgiven. The Company also 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 helped support the Company's ongoing operations which provide vital information and entertainment to Latino communities.
- The Company announced that it entered into an asset purchase agreement to acquire WPYO(FM) and WSUN(FM), two FM radio broadcast stations serving the Orlando and Tampa radio markets for purchase price equal to $12.5 million plus or minus certain customary prorations and adjustments. The Company intends to use cash on hand to fund the transaction at closing. For more information regarding the acquisition, see Note 18 to our 2021 financial statements that are included elsewhere in this Annual Reporting Package.

Although we have access to a $15 million revolving credit facility, our primary source of liquidity is our current cash and our cash flows from operations. Our cash flows from operations are subject to factors impacting our customers and target audience, such as overall advertising demand, shifts in population, listenership and viewership, demographics, audience tastes and fluctuations in preferred advertising media.

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 has continued to steadily improve. The Company has experienced sequential improvements during the current year.
- 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.

We have evaluated 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. 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

As of December 31, 2021, 380,000 shares of Series C preferred were outstanding. Raúl Alarcón, our Chairman of the Board and Chief Executive Officer, is the beneficial owner of all the shares of Series C preferred stock which are convertible into 760,000 shares of Class A common stock, subject to certain adjustments.

Class A Common Stock

As of December 31, 2021, we had 5,041,878 shares of Class A common stock outstanding.

Class B Common Stock

As of December 31, 2021, 2,340,353 shares of Class B common stock were 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 December 31, 2021, 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 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 years ended December 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.

	Year Ended December 31,		Change
	2021	2020	$
Capital expenditures:			
Radio	$ 1,485	$ 1,514	(29)
Television	1,035	560	475
Corporate	446	461	(15)
Consolidated	$ 2,966	$ 2,535	431
Net cash flows provided by (used in) operating activities	$ 8,296	$ (7,599)	15,895
Net cash flows (used in) provided by investing activities	(2,619)	14,921	(17,540)
Net cash flows used in financing activities	(17,612)	—	(17,612)
Net (decrease) increase in cash and cash equivalents	$ (11,935)	$ 7,322	

Capital Expenditures

Changes in capital expenditures are mostly attributable to the Company investing in transmitter, cybersecurity, communications, studio and technical equipment.

Net Cash Flows Provided by (Used in) Operating Activities

Changes in our net cash flows provided by operating activities were primarily a result of the Company commencing to make interest payments on its new 9.75% senior secured notes on a semi-annual basis rather than monthly payments on its prior notes and the improvement to operating income.

Net Cash Flows (Used in) Provided by Investing Activities

Changes in our net cash 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 Year End Reporting Package contains both historical and forward-looking statements. All statements other than statements of historical fact are, or may be deemed to be, forward-looking statements. Spanish Broadcasting System, Inc. and Subsidiaries intends such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995, and includes this statement for purposes of such safe harbor provisions. These forward-looking statements may involve known and unknown risks, uncertainties and other factors that may cause the Company's actual results and performance in future periods to be materially different from any future results or performance suggested by the forward-looking statements in this press release. Although we believe the expectations reflected in such forward-looking statements are based upon reasonable assumptions, we can give no assurance that actual results will not differ materially from these expectations.

"Forward-looking" statements represent our expectations or beliefs, including, but not limited to, statements concerning our operations, economic performance, financial condition, growth and acquisition strategies, investments, and future operational plans. Without limiting the generality of the foregoing, words such as "may," "will," "expect," "believe," "anticipate," "intend," "forecast," "seek," "plan," "predict," "project," "could," "estimate," "might," "continue," "seeking" or the negative or other variations thereof or comparable terminology are intended to identify forward-looking statements. These statements, by their nature, 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 outbreak of other COVID-19 variants, 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 and Chief Executive Officer, 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 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; the COVID-19 pandemic may continue to 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.