Quarterly Financial Reporting Package
For the period ended June 30, 2022

Spanish Broadcasting System, Inc. and Subsidiaries

Delaware	**13-3827791**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

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

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

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

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

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FINANCIAL INFORMATION

Financial Statements - Unaudited

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

	June 30, 2022	December 31, 2021
Assets		
Current assets:		
Cash and cash equivalents	$ 8,530	$ 16,243
Receivables:		
Trade	37,590	50,551
Barter	185	309
	37,775	50,860
Less: allowance for doubtful accounts	2,839	3,027
Net receivables	34,936	47,833
Prepaid expenses and other current assets	7,447	8,384
Total current assets	50,913	72,460
Property and equipment, net	21,722	21,324
FCC broadcasting licenses	309,537	297,179
Goodwill	32,806	32,806
Operating lease right-of-use assets	19,280	19,770
Other assets	926	1,045
Total assets	$ 435,184	$ 444,584
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable and accrued expenses	$ 20,051	$ 25,801
Accrued interest	10,574	10,394
Unearned revenue	1,371	1,454
Operating lease liabilities	1,073	1,075
Total current liabilities	33,069	38,724
Operating lease liabilities - net of current portion	20,389	20,624
9.75% Senior Secured Notes due 2026, net of deferred financing costs of $6,918 at June 30, 2022 and $7,872 at December 31, 2021 (Note 7)	303,082	302,128
Deferred tax liabilities	56,772	56,772
Other liabilities, less current portion	3,339	3,677
Total liabilities	416,651	421,925
Stockholders' equity:		
Series C convertible preferred stock, $0.01 par value and liquidation value. Authorized 600,000 shares; 380,000 shares issued and outstanding at June 30, 2022 and at December 31, 2021.	4	4
Class A common stock, $0.0001 par value. Authorized 100,000,000 shares; 5,041,878 shares issued and outstanding at June 30, 2022 and at December 31, 2021	1	1
Class B common stock, $0.0001 par value. Authorized 50,000,000 shares; 2,340,353 shares issued and outstanding at June 30, 2022 and December 31, 2021	—	—
Additional paid-in capital	652,669	652,544
Accumulated deficit	(634,141)	(629,890)
Total stockholders' equity	18,533	22,659
Total liabilities and stockholders' equity	$ 435,184	$ 444,584

See accompanying notes to unaudited condensed consolidated financial statements.

SPANISH BROADCASTING SYSTEM, INC.
AND SUBSIDIARIES
Unaudited Condensed Consolidated Statements of Operations
(In thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Net revenue	$ 37,515	$ 36,174	$ 77,911	$ 60,817
Operating expenses:				
Engineering and programming	9,353	7,634	17,759	15,260
Selling, general and administrative	18,068	13,429	39,564	26,545
Corporate expenses	4,632	2,894	8,508	5,368
Depreciation and amortization	809	769	1,602	1,562
Total operating expenses	32,862	24,726	67,433	48,735
Gain on the disposal of assets	(2)	—	(13)	(198)
Recapitalization costs	—	—	—	420
Other operating income	—	(1,190)	—	(9)
Operating income	4,655	12,638	10,491	11,869
Other expenses:				
Interest expense	(8,063)	(8,162)	(16,286)	(16,027)
Dividends on Series B preferred stock classified as interest expense	—	—	—	(1,323)
Income (Loss) before income tax	(3,408)	4,476	(5,795)	(5,481)
Income tax expense (benefit)	(829)	106	(1,544)	(573)
Net income (loss)	$ (2,579)	$ 4,370	$ (4,251)	$ (4,908)
Class A and B net income (loss) per common share (Note 3)				
Basic and Diluted	$ (0.32)	$ 0.58	$ (0.52)	$ (0.66)

See accompanying notes to the unaudited condensed consolidated financial statements.

SPANISH BROADCASTING SYSTEM, INC.
AND SUBSIDIARIES
Unaudited Condensed Consolidated Statements of Cash Flows
(In thousands)

	Six Months Ended June 30,	
	2022	**2021**
Cash flows from operating activities:		
Net loss	$ (4,251)	$ (4,908)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Dividends on Series B preferred stock classified as interest expense	—	1,323
Gain on the disposal of assets, net of disposal costs	(13)	—
Gain on insurance proceeds received for damage to equipment	—	(198)
Stock-based compensation	125	1
Depreciation and amortization	1,602	1,562
Net barter income	(104)	(19)
Provision for trade doubtful accounts	102	554
Amortization of deferred financing costs	954	713
Deferred income taxes	—	(1,366)
Unearned revenue-barter	422	135
Changes in operating assets and liabilities:		
Trade receivables	12,598	3,561
Prepaid expenses and other current assets	937	(2,361)
Other assets	272	954
Accounts payable and accrued expenses	(5,743)	(829)
Accrued interest	180	9,732
Other liabilities	(655)	(390)
Net cash provided by operating activities	6,426	8,464
Cash flows from investing activities:		
Purchases of property and equipment	(1,872)	(1,408)
Acquisition of radio stations and related assets	(12,663)	—
Insurance proceeds received for damage to equipment	386	198
Proceeds from the sale of property and equipment	10	—
Net proceeds towards FCC repack assets	—	69
Net cash used in investing activities	(14,139)	(1,141)
Cash flows from financing activities:		
Proceeds from 9.75% senior secured notes due 2026	—	310,000
Payment of financing fees	—	(9,510)
Payment of 12.5% senior secured notes	—	(249,864)
Repurchase and redemption Series B preferred stock	—	(69,715)
Net cash used in financing activities	—	(19,089)
Net decrease in cash and cash equivalents	(7,713)	(11,766)
Cash and cash equivalents at beginning of period	16,243	28,178
Cash and cash equivalents at end of period	$ 8,530	$ 16,412
Supplemental cash flows information:		
Interest paid	$ 15,153	$ 5,418
Income tax paid with cash	$ 3,980	$ 1,204
Noncash investing and financing activities:		
Gain on repurchase of Series B preferred stock	$ —	$ 118,732
Common stock issuance in settlement of Series B preferred stock	$ —	$ 7,660

See accompanying notes to unaudited condensed consolidated financial statements.

SPANISH BROADCASTING SYSTEM, INC. AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation

The unaudited condensed consolidated financial statements include the accounts of Spanish Broadcasting System, Inc. and its subsidiaries (the Company, we, us, our or SBS). All intercompany balances and transactions have been eliminated in consolidation. The accompanying unaudited condensed consolidated financial statements as of June 30, 2022, and December 31, 2021 and for the three and six month periods ended June 30, 2022 and 2021 have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial information. They do not include all information and notes required by U.S. GAAP for complete financial statements. These unaudited condensed consolidated financial statements should be read in conjunction with our consolidated financial statements included in our Year End Financial Reporting Package for the fiscal year ended December 31, 2021. In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments, which are all of a normal and recurring nature, necessary for a fair presentation of the results of the interim periods. Additionally, we evaluated subsequent events after the balance sheet date of June 30, 2022 through the financial statements' issuance date. The results of operations for the three and six months ended June 30, 2022 are not necessarily indicative of the results for the entire year ending December 31, 2022 or for any future interim or annual periods.

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Significant items subject to such estimates and assumptions include the allowance for doubtful accounts, the realization of deferred tax assets, the useful lives and future cash flows used for testing the recoverability of property and equipment, the recoverability of FCC broadcasting licenses, and goodwill, the recoverability of right-of-use assets, the fair value of Level 2 financial instruments, production tax credits, the assessment as to whether it is reasonably certain that we will exercise our options to extend lease terms when available, the present value of lease payments used to calculate our lease liabilities and related right-of-use assets which includes the use of estimated incremental borrowing rate ("IBR"), contingencies and litigation. These estimates and assumptions are based on management's best judgments. Management evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors, including the current economic environment, which management believes to be reasonable under the circumstances. Management adjusts such estimates and assumptions as facts and circumstances dictate. Illiquid credit markets, volatile equity markets and reductions in some advertising spending have combined to increase the uncertainty inherent in such estimates and assumptions. Actual results could differ from these estimates.

The impact of the COVID-19 pandemic continues to create uncertainty and disruption in the global economy and financial markets. It is reasonably possible that these uncertainties could materially impact our estimates related to, but not limited to, allowance for doubtful accounts, FCC broadcast licenses, goodwill and income taxes. As a result, many of our estimates and assumptions require increased judgment and carry a higher degree of variability and volatility. Our estimates may change as new events occur and additional information emerges, and such changes are recognized or disclosed in our consolidated financial statements.

2. Revenue

In accordance with ASC 606, revenue is recognized when a customer obtains control of promised services. The amount of revenue recognized and reported reflects the consideration to which the Company expects to be entitled to receive in exchange for these services and entitled under the contract. Substantially all deferred revenue is recognized within twelve months of the payment date. To achieve this core principle, the Company applies the following five steps:

1) Identify the contract with a customer,
2) Identify the performance obligations in the contract,
3) Determine the transaction price,
4) Allocate the transaction price to performance obligations in the contract, and
5) Recognize revenue when or as the Company satisfies a performance obligation.

Disaggregation of Revenue

The following table summarizes revenue from contracts with customers for the three and six months ended June 30, 2022 and 2021 (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Local, national, digital and network	$ 40,302	$ 39,841	$ 73,943	$ 66,419
Special events	447	36	9,797	36
Barter	1,582	1,241	3,070	2,421
Other	504	704	1,049	1,410
Gross revenue	$ 42,835	$ 41,822	$ 87,859	$ 70,286
Less: Agency commissions	5,320	5,648	9,948	9,469
Net revenue	$ 37,515	$ 36,174	$ 77,911	$ 60,817

Nature of Products and Services

(a) Local, national, digital and network advertising

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

(c) Barter advertising

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

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

For the three months ended June 30, 2022 and 2021, barter revenue of $1.6 million and $1.2 million was offset by barter expense of $1.8 million and $1.3 million, respectively. For the six months ended June 30, 2022 and 2021, barter revenue of $3.1 million and $2.4 million was offset by barter expense of $3.0 million and $2.4 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.

(e) Agency commissions

Agency commissions are calculated based on a stated percentage applied to gross billing revenue. Advertisers remit the gross billing amount to the agency and the agency remits gross billings less their commission to us when the advertisement is not placed directly by the advertiser.

Significant Judgments

As part of its consideration of the existence of contracts, the Company evaluates certain factors including the customer's ability to pay (or credit risk). Advertising contracts are for one year or less. In determining the transaction price, the Company evaluates whether the price is subject to refund or adjustment to determine the net consideration to which the Company expects to be entitled. In determining whether control has transferred, the Company considers if there is a present right to payment and legal title, along with risks and rewards of ownership having transferred to the customer.

Contract Balances

During the three months ended June 30, 2022 there were no local, national, digital and network revenue recognized that were included in the unearned revenue balance at the beginning of the period. During the six months ended June 30, 2022, there were $0.6 million of local, national, digital and network revenue that were included in the unearned revenue balances at the beginning of the period.

During the three months ended June 30, 2022, there was no special events revenue recognized that was included in the unearned balance at the beginning of period. There was $0.4 million of special events revenue recognized during the six months ended June 30, 2022 that was included in the unearned balance at the beginning of period.

During the three months ended June 30, 2022, there was no barter revenue recognized that was included in the unearned revenue balance at the beginning of the period. There was $0.3 million of barter revenue recognized during the six months ended June 30, 2022, that was included in the unearned revenue balance at the beginning of the period.

Other revenues recognized during the three and six months ended June 30, 2022 that were included in unearned revenue balances at the beginning of the period were not significant.

At June 30, 2022 there was $0.8 million of variable consideration in the form of agency based volume discounts accrued as contract liabilities within accrued expenses as compared to $1.7 million and $1.4 million for the quarter ended March 31, 2022 and the year ended December 31, 2021, respectively. Variable consideration in the form of agency-based volume discounts of $0.3 million and $0.6 million were recognized and recorded as contract liabilities within accrued expenses during the three and six months ended June 30, 2022, respectively.

Transaction Price Allocated to the Remaining Performance Obligation

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

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

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

3. Basic and Diluted Net Income (Loss) Per Common Share

In calculating net income (loss) per share, the Company follows the two-class method, which distinguishes between classes of securities based on the proportionate participation rights of each security type in the Company's undistributed net income (loss). The Company's Class A common stock, Class B common stock and Series C convertible preferred stock share equally on an as-converted basis with respect to net income (loss).

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 tables summarize the net income (loss) applicable to common stockholders and the net income (loss) per common share for the three and six months ended June 30, 2022 and 2021 (in thousands, except per share data):

	Three Months Ended June 30,					
	2022			2021		
	Class A	Class B	Series C	Class A	Class B	Series C
Basic net income (loss) per share:						
Numerator						
Allocation of undistributed earnings	$ (1,597)	$ (741)	$ (241)	$ 2,562	$ 1,365	$ 443
Denominator						
Number of shares used in per share computation (as converted)	5,042	2,340	760	4,392	$ 2,340	760
Basic net income (loss) per share	$ (0.32)	$ (0.32)	$ (0.32)	$ 0.58	$ 0.58	$ 0.58
Diluted net income (loss) per share:						
Numerator						
Allocation of undistributed earnings	$ (1,597)	$ (741)	$ (241)	$ 2,579	$ 1,352	$ 439
Denominator						
Number of shares used in basic computation	5,042	2,340	760	4,392	2,340	760
Weighted-average impact of dilutive equity instruments	—	—	—	73	—	—
Number of shares used in per share computation (as converted)	5,042	2,340	760	4,465	2,340	760
Diluted net income (loss) per share	$ (0.32)	$ (0.32)	$ (0.32)	$ 0.58	$ 0.58	$ 0.58
Common stock equivalents excluded from calculation of diluted net income (loss) per share as the effect would have been anti-dilutive:	529	—	—	335	—	—

	Six Months Ended June 30,					
	2022			2021		
	Class A	Class B	Series C	Class A	Class B	Series C
Basic net loss per share:						
Numerator						
Allocation of undistributed earnings	$ (2,632)	$ (1,222)	$ (397)	$ (2,857)	$ (1,548)	$ (503)
Denominator						
Number of shares used in per share computation (as converted)	5,042	2,340	760	4,318	2,340	760
Basic net loss per share	$ (0.52)	$ (0.52)	$ (0.52)	$ (0.66)	$ (0.66)	$ (0.66)
Diluted net loss per share:						
Numerator						
Allocation of undistributed earnings	$ (2,632)	$ (1,222)	$ (397)	$ (2,857)	$ (1,548)	$ (503)
Denominator						
Number of shares used in basic computation	5,042	2,340	760	4,318	2,340	760
Weighted-average impact of dilutive equity instruments	—	—	—	—	—	—
Number of shares used in per share computation (as converted)	5,042	2,340	760	4,318	2,340	760
Diluted net loss per share	$ (0.52)	$ (0.52)	$ (0.52)	$ (0.66)	$ (0.66)	$ (0.66)
Common stock equivalents excluded from calculation of diluted net loss per share as the effect would have been anti-dilutive:	305	—	—	405	—	—

In conjunction with the settlement of the 10 ¾% Series B Cumulative Exchangeable Redeemable Preferred Stock ("the Series B Preferred Stock"), the Company reserved 1,939,365 (adjusted for fractional shares) shares of its Class A common stock. As of June 30, 2022, the Company has issued 771,797 shares of Class A common stock to the Selling Series B Preferred Holders in accordance with the terms and conditions of the Series B Purchase Agreement. During the three and six months ended June 30, 2022, the Company did not issue any additional shares of the reserved Class A common stock to the Selling Series B Preferred Holders. The remaining 1,167,568 reserved shares were not included in calculating basic or diluted net income (loss) per share as of June 30, 2022.

4. Stockholders' Equity (Deficit)

The changes in stockholder's equity (deficit) for the three and six month periods ended June 30, 2022 and 2021 are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Beginning balance	$ 21,049	$ 11,723	$ 22,659	$ (105,412)
Net loss	(2,579)	4,370	(4,251)	(4,908)
Stock-based compensation	63	—	125	1
Gain and issuance of class A common stock related to the Series B Settlement and Purchase Agreement	—	(21)	—	126,391
Ending balance	$ 18,533	$ 16,072	$ 18,533	$ 16,072

Gain and issuance of Class A common stock related to the Series B Settlement and Purchase Agreement

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 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 June 30, 2022, the Company has issued 771,797 shares of the reserved Class A common stock to various Selling 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.

The Company 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 June 30, 2021 (in thousands):

	June 30, 2021
Series B Carrying Value of Selling Group	$ 184,618
Less: fair value of Class A common stock granted	7,660
Net carrying value	$ 176,958
Less: cash payments, including direct expenses	58,226
Gain on repurchase of Selling Series B preferred stock	$ 118,732

5. Commitments and Contingencies

We are subject to certain legal proceedings and/or claims that have arisen in the ordinary course of business and have not been fully adjudicated or settled. In our opinion, we do not have a potential liability related to any current legal proceedings and/or claims that would have a material adverse effect on our financial condition or operating results. However, the results of legal proceedings and/or claims cannot be predicted with certainty. Should we fail to prevail in any of these legal matters and/or claims or should all of these legal matters and/or claims be resolved against us in the same reporting period, the operating results of a particular reporting period could be materially adversely affected.

6. Operating Segments

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Net revenue:				
Radio	$ 35,047	$ 33,052	$ 73,078	$ 54,807
Television	2,468	3,122	4,833	6,010
Consolidated	$ 37,515	$ 36,174	$ 77,911	$ 60,817
Engineering and programming expenses:				
Radio	$ 7,187	$ 5,558	$ 13,416	$ 11,097
Television	2,166	2,076	4,343	4,163
Consolidated	$ 9,353	$ 7,634	$ 17,759	$ 15,260
Selling, general and administrative expenses:				
Radio	$ 16,439	$ 11,890	$ 36,585	$ 23,469
Television	1,629	1,539	2,979	3,076
Consolidated	$ 18,068	$ 13,429	$ 39,564	$ 26,545
Corporate expenses:	$ 4,632	$ 2,894	$ 8,508	$ 5,368
Depreciation and amortization:				
Radio	$ 383	$ 351	$ 753	$ 699
Television	331	319	659	662
Corporate	95	99	190	201
Consolidated	$ 809	$ 769	$ 1,602	$ 1,562
Gain on the disposal of assets, net:				
Radio	$ (2)	$ —	$ (2)	$ —
Television	—	—	(11)	(198)
Corporate	—	—	—	—
Consolidated	$ (2)	$ —	$ (13)	$ (198)
Recapitalization costs:				
Radio	$ —	$ —	$ —	$ —
Television	—	—	—	—
Corporate	—	—	—	420
Consolidated	$ —	$ —	$ —	$ 420
Other operating (income) expense:				
Radio	$ —	$ (1,164)	$ —	$ 17
Television	—	—	—	—
Corporate	—	(26)	—	(26)
Consolidated	$ —	$ (1,190)	$ —	$ (9)
Operating income (loss):				
Radio	$ 11,040	$ 16,417	$ 22,326	$ 19,525
Television	(1,658)	(812)	(3,137)	(1,693)
Corporate	(4,727)	(2,967)	(8,698)	(5,963)
Consolidated	$ 4,655	$ 12,638	$ 10,491	$ 11,869

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Capital expenditures:				
Radio	$ 1,026	$ 370	$ 1,413	$ 572
Television	70	136	307	457
Corporate	66	68	152	379
Consolidated	$ 1,162	$ 574	$ 1,872	$ 1,408

	June 30, 2022	December 31, 2021
Total Assets:		
Radio	$ 394,088	$ 401,235
Television	33,510	34,903
Corporate	7,586	8,446
Consolidated	$ 435,184	$ 444,584

7. $310 Million Senior Secured Notes Due 2026 and Revolving Credit Facility

a) $ 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 12.5% Senior Secured Notes due 2017, (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 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 ours 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 June 30, 2022, the Company had no events of default under the Indenture.

b) Revolving Credit Facility

Concurrently with the completion of the Notes offering, we entered 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 June 30, 2022, 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 June 30, 2022, 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.

8. Income Taxes

The Company follows the guidance in ASC 270, "Interim Reporting" and ASC 740 "Income Taxes", whereby the Company utilizes the expected annual effective tax rate in determining its income tax provisions for the interim periods. In assessing the realizability of the deferred tax assets, management considers whether it is more likely than not that some portion or the entire deferred tax assets will not be realized. The ultimate realization of the deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment.

Our income tax expense differs from the statutory federal tax rate of 21% and related statutory state tax rates primarily due to nondeductible expenses, Puerto Rico withholding taxes and a recording of a valuation allowance on certain tax attributes that are expected to be limited as a result of the Section 382 limitation due to the recapitalization of the Company in 2021.

U.S. Federal jurisdiction and the jurisdictions of Florida, New York, New York City, California, Illinois, Texas and Puerto Rico are the major tax jurisdictions where we file income tax returns. The tax years that remain subject to assessment of additional liabilities by the federal, state and local tax authorities are 2018 through 2020. The tax years that remain subject to assessment of additional liabilities by the Puerto Rico tax authority are 2017 through 2020.

Based on our evaluation, we have concluded that there are no material uncertain tax positions requiring recognition in our consolidated financial statements as of June 30, 2022.

9. Fair Value of Financial Instruments

Cash and cash equivalents, receivables, as well as accounts payable and accrued expenses, and other current liabilities, as reflected in the consolidated financial statements, approximate fair value because of 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:

		June 30, 2022		December 31, 2021	
Description	Fair Value Hierarchy	Carrying Amount	Fair Value	Carrying Amount	Fair Value
9.75% senior secured notes due 2026 (Note 7)	Level 2	$ 310.0	$ 245.3	$ 310.0	$ 321.4

10. Employee Retention Credit

The Employee Retention Credit (the "ERC") was established by the Coronavirus Aid, Relief, and Economic Security Act (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. 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. As of June 30, 2022, the company has received $0.3 million of such credits. The Company expects the IRS will review the remaining amended returns and refund the paid taxes to the Company in 2022.

11. Asset Acquisition

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

On April 29, 2022, the Company closed on the purchase of the Radio Stations and paid an aggregate purchase price including transaction costs equal to $12.7 million consisting of (i) cash in the amount of $11.45 million and (ii) the release of $1.25 million of escrowed funds to the seller which were funded on February 14, 2022.

In accordance with ASC 805 Business Combinations, the Company must determine whether a transaction or event that results in an entity obtaining control of a set of net assets should be accounted for as a business combination or alternatively as an asset acquisition. Based on the Company's assessment of a third-party asset valuation report, in conjunction with the relevant facts and circumstances surrounding the transaction, it concluded that the transaction was to be accounted for as an acquisition of assets.

The total purchase price of $12.7 million consisted of $12.4 million of FCC licenses and $0.3 million of property, plant, and equipment. The table below summarizes the change in FCC licenses as of June 30, 2022:

	June 30, 2022
FCC Licenses as of 12/31/2021	$ 297,179
Plus: Acquisition of FCC Licenses	12,358
FCC Licenses as of 06/30/2022	$ 309,537

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, San Francisco, Orlando, and Tampa. The Los Angeles and New York markets have the largest and second largest Hispanic populations and are also the largest and second largest radio markets in the United States measured by advertising revenue, respectively. 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 in order to accommodate and monetize such diversity. We customize the programming format of each of our radio stations to capture a substantial share of the Hispanic audience and to match the local preferences of our target demographic audience in our respective markets. 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 six months ended June 30, 2022 and 2021, our radio revenue was generated primarily from the sale of local, national, network and digital advertising, and our radio segment generated 94% and 90% of our consolidated net revenue, respectively.

Our television stations and related affiliates operate under the "MegaTV" brand. We broadcast via our owned and operated television stations in South Florida and Puerto Rico and through programming and/or distribution agreements, including nationally on a subscriber basis, which allow us to serve markets representing over 6.4 million households, including over 2.8 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 90 hours of original programming per week. For the six months ended June 30, 2022 and 2021, our television revenue was generated primarily from the sale of local advertising and paid programming and generated 6% and 10% of our consolidated net revenues, respectively.

As part of our operating business, we also maintain multiple Spanish and bilingual websites, including www.lamusica.com, Mega.tv and various station websites that provide content related to Latin music, entertainment, news, and culture, as well as the LaMusica mobile application. The LaMusica mobile application is a music and entertainment video and audio application 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 application 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. These measures 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. The Company has 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 experienced steady improvements during 2021 and the beginning of 2022, if local, state, and federal governments or public and private entities begin to implement additional precautionary or restrictive measures or the pandemic does not end, there may be material adverse effects on our business, results of operations, financial condition, and cash flows.

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 revenue generally consists of advertising airtime sold to a local advertiser. Local revenue includes local spot sales, integrated sales, sponsorship sales and paid programming (or infomercials). Digital revenue generally consists of advertisements placed on the Company's LaMusica application or its digitally streamed stations. For the six months ended June 30, 2022 and 2021, local and digital revenue comprised 64% and 70% of our gross revenues, respectively.
- National and network revenue generally consist 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 six months ended June 30, 2022 and 2021, national and network revenue comprised 20% and 25% 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 special events revenue, barter sales, and other revenue.

- *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 six months ended June 30, 2022 and 2021, special events revenue comprised 11% and 0% of our gross revenues, respectively.
- *Barter sales.* We use barter sales agreements to reduce cash paid for operating costs and expenses by exchanging advertising airtime for goods or services. However, we endeavor to minimize barter revenue to maximize cash revenue from our available airtime. For the six months ended June 30, 2022 and 2021, barter revenue comprised 3% 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 six months ended June 30, 2022 and 2021, 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.

Comparison Analysis of the Operating Results for the Three Months Ended June 30, 2022 and 2021

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

	Three Months Ended June 30,	
	2022	2021
Net revenue:		
Radio	$ 35,047	$ 33,052
Television	2,468	3,122
Consolidated	$ 37,515	$ 36,174
Engineering and programming expenses:		
Radio	$ 7,187	$ 5,558
Television	2,166	2,076
Consolidated	$ 9,353	$ 7,634
Selling, general and administrative expenses:		
Radio	$ 16,439	$ 11,890
Television	1,629	1,539
Consolidated	$ 18,068	$ 13,429
Corporate expenses:	$ 4,632	$ 2,894
Depreciation and amortization:		
Radio	$ 383	$ 351
Television	331	319
Corporate	95	99
Consolidated	$ 809	$ 769
Gain on the disposal of assets, net:		
Radio	$ (2)	$ —
Television	—	—
Corporate	—	—
Consolidated	$ (2)	$ —
Other operating income:		
Radio	$ —	$ (1,164)
Television	—	—
Corporate	—	(26)
Consolidated	$ —	$ (1,190)
Operating income (loss):		
Radio	$ 11,040	$ 16,417
Television	(1,658)	(812)
Corporate	(4,727)	(2,967)
Consolidated	$ 4,655	$ 12,638

The following summary table presents a comparison of our operating results of operations for the three months ended June 30, 2022 and 2021. Various fluctuations illustrated in the table are discussed below. This section should be read in conjunction with our unaudited condensed consolidated financial statements and related notes.

	Three Months Ended June 30,	
	2022	2021
Net revenue	$ 37,515	$ 36,174
Engineering and programming expenses	9,353	7,634
Selling, general and administrative expenses	18,068	13,429
Corporate expenses	4,632	2,894
Depreciation and amortization	809	769
Gain on the disposal of assets	(2)	—
Other operating income	—	(1,190)
Operating income	4,655	12,638
Interest expense	(8,063)	(8,162)
Income tax expense (benefit)	(829)	106
Net income (loss)	$ (2,579)	$ 4,370

Overview

For the three months ended June 30, 2022, our radio segment operating expenses were impacted by investments in our (i) newly acquired Orlando and Tampa start-up stations on April 29, 2022, (ii) digital infrastructure and personnel and (iii) unique Spanish-language programming talent and content. Additionally, during the comparative prior period ended June 30, 2021, our radio, television, and corporate expenses were impacted by the Company's receipt of $2.0 million of Paycheck Protection Program (the "PPP") proceeds that were directly used to offset the related eligible compensation and benefits expenses.

Net Revenue

The increase in our consolidated net revenue of $1.3 million or 4% was due to an increase in our radio segment. Our radio segment net revenue increased $2.0 million or 6% due to increases in digital, network, special events, and barter revenues. Our television segment net revenue decreased $0.7 million or 21%, due to lower national, local, barter, and subscriber related revenues.

Engineering and Programming Expenses

Our consolidated engineering and programming expenses increased $1.7 million or 23% due to increases in both our radio and television segments expenses. Our radio segment expenses increased $1.6 million or 29%, mainly due to increases in compensation & benefits and the lack of PPP proceeds in the current period. Our television segment expenses increased $0.1 million or 4% due to the lack of PPP proceeds in the current period, offset by a decrease in net production costs.

Selling, General, and Administrative Expenses

The increase in our consolidated selling, general and administrative expenses of $4.6 million or 35% was due to increases in both our radio and television segment expenses. Our radio segment expenses increased $4.5 million or 38%, primarily due to increases in compensation & benefits, advertising & promotions, barter, commissions, travel & entertainment, and the lack of PPP proceeds in the current period. Our television segment expenses increased $0.1 million or 6% primarily due to increases in compensation & benefits and the lack of PPP proceeds in the current period, offset by a decrease in the allowance for doubtful accounts.

Corporate Expenses

Corporate expenses increased $1.7 million primarily due to increases in compensation & benefits, outside services and travel & entertainment.

Other Operating Income

The change in other operating income of $1.2 million was the result of the recognition of a one-time payment of $1.2 million related to the transition to a new national sales representative agreement in the prior period.

Operating Income

The decrease in operating income of 63% was primarily due to the increase in operating and corporate expenses and the decrease in other operating income, partially offset by the increase in net revenue.

Income Tax Expense (Benefit)

The change in income taxes of $0.9 million was due to the tax benefit recorded on the loss before income taxes for the three-months ended June 30, 2022, reduced by a valuation allowance that was recorded against certain tax attributes that are expected to be limited as a result of the Section 382 limitation due to the recapitalization of the Company in 2021.

Net Income (Loss)

The decrease in net income of $6.9 million was primarily due to the increase in operating and corporate expenses and the decrease in other operating income, partially offset by the increase in net revenue and the income tax benefit recognized during the period.

Comparison Analysis of the Operating Results for the Six Months Ended June 30, 2022 and 2021

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

	Six Months Ended June 30,	
	2022	2021
Net revenue:		
Radio	$ 73,078	$ 54,807
Television	4,833	6,010
Consolidated	$ 77,911	$ 60,817
Engineering and programming expenses:		
Radio	$ 13,416	$ 11,097
Television	4,343	4,163
Consolidated	$ 17,759	$ 15,260
Selling, general and administrative expenses:		
Radio	$ 36,585	$ 23,469
Television	2,979	3,076
Consolidated	$ 39,564	$ 26,545
Corporate expenses:	$ 8,508	$ 5,368
Depreciation and amortization:		
Radio	$ 753	$ 699
Television	659	662
Corporate	190	201
Consolidated	$ 1,602	$ 1,562
Gain on the disposal of assets, net:		
Radio	$ (2)	$ —
Television	(11)	(198)
Corporate	—	—
Consolidated	$ (13)	$ (198)
Recapitalization costs:		
Radio	$ —	$ —
Television	—	—
Corporate	—	420
Consolidated	$ —	$ 420
Other operating (income) expense:		
Radio	$ —	$ 17
Television	—	—
Corporate	—	(26)
Consolidated	$ —	$ (9)
Operating income (loss):		
Radio	$ 22,326	$ 19,525
Television	(3,137)	(1,693)
Corporate	(8,698)	(5,963)
Consolidated	$ 10,491	$ 11,869

The following summary table presents a comparison of our results of operations for the six months ended June 30, 2022 and 2021 (in thousands). Various fluctuations in our results are discussed below. This section should be read in conjunction with our unaudited condensed consolidated financial statements and notes.

	Six Months Ended June 30,	
	2022	2021
Net revenue	$ 77,911	$ 60,817
Engineering and programming expenses	17,759	15,260
Selling, general and administrative expenses	39,564	26,545
Corporate expenses	8,508	5,368
Depreciation and amortization	1,602	1,562
Gain on the disposal of assets	(13)	(198)
Recapitalization costs	—	420
Other operating income	—	(9)
Operating income	10,491	11,869
Interest expense	(16,286)	(16,027)
Dividends on Series B preferred stock classified as interest expense	—	(1,323)
Income tax benefit	(1,544)	(573)
Net loss	$ (4,251)	$ (4,908)

Overview

For the six months ended June 30, 2022, our radio segment operating expenses were impacted by investments in our (i) newly acquired Orlando and Tampa start-up stations on April 29, 2022, (ii) digital infrastructure and personnel and (iii) unique Spanish-language programming talent and content. Additionally, during the comparative prior period ended June 30, 2021, our radio, television, and corporate expenses were impacted by the Company's receipt of $2.0 million of Paycheck Protection Program (the "PPP") proceeds that were directly used to offset the related eligible compensation and benefits expenses.

Net Revenue

The increase in our consolidated net revenue of $17.1 million or 28% was primarily due to an increase in our radio segment. Our radio segment net revenue increased $18.3 million or 33% due to increases in local, network, digital, barter, and special events revenues. Our television segment net revenue decreased $1.2 million or 20%, due to lower national, local, barter, and subscriber related revenues.

Engineering and Programming Expenses

Our consolidated engineering and programming expenses increased $2.5 million or 16% due to increases in our radio and television segments expenses. Our radio segment expenses increased $2.3 million or 21%, mainly due to increases in compensation & benefits and the lack of PPP funds when compared to the same prior year period. Our television segment expenses increased $0.2 million or 4% primarily due to the lack of PPP funds in the current period offset by a decrease in net production costs.

Selling, General, and Administrative Expenses

Our consolidated selling, general and administrative expenses increased $13.0 million due to an increase in our radio segment expenses offset by a decrease in our television expenses. Our radio segment expenses increased $13.1 million or 56%, primarily due to increases in special event expenses, compensation & benefits, advertising & promotions, travel & entertainment, and commissions. Our television segment expenses decreased by $0.1 million or 3% primarily due to decreases in barter and the allowance for doubtful accounts.

Corporate Expenses

Corporate expenses increased $3.1 million primarily due to increases in compensation & benefits, outside services and travel & entertainment.

Recapitalization Costs

Recapitalization costs decreased $0.4 million due to our successful refinancing efforts which concluded in February 2021.

Operating Income

The decrease in operating income of 12% was primarily due to the increase in operating and corporate expenses partially offset by the increase in net revenue and the decrease in recapitalization costs.

Interest expense

Interest expense increased $0.3 million or 2% primarily due to increased amortization of deferred financing costs related to our 2021 refinancing.

Income Tax Benefit

The increase in income tax benefit of $1.0 million was primarily the result of the lack of the release of a valuation allowance on certain US and Puerto Rico deferred tax assets during the second quarter of 2021.

Net Loss

The decrease in net loss of $0.7 million or 13% was primarily due to the increase in operating and corporate expenses, partially offset by the increase in net revenue, the lack of recapitalization costs and the increase in income tax benefit recognized during the period.

Liquidity and Capital Resources

The most important aspects of our liquidity and capital resources as of June 30, 2022 and, as of the date of this Quarterly Financial Reporting Package, are as follows:

- Our senior secured asset-based revolving credit facility provides for borrowings of up to $15.0 million which is currently undrawn. We intend to use these funds to finance working capital needs and other general corporate purposes, as necessary.
- During the year ended December 31, 2021, the Company determined that it was eligible under the American Rescue Plan Act and filed amendments to its payroll tax returns for $4.7 million of ERC assistance benefit as a direct offset and reduction to the related eligible compensation and benefits expenses. As of June 30, 2022, the company has received $0.3 million of such credits. The Company expects the IRS will review the remaining amended ERC eligible returns in 2022 and return the paid taxes to the Company. These funds and benefits help support the Company's ongoing operations which provide vital information and entertainment to Latino communities.
- On April 29, 2022, the Company closed the purchase of the radio stations in Orlando and Tampa and paid an aggregate purchase price including transaction costs equal to $12.7 million consisting of (i) cash in the amount of $11.45 million and (ii) the release of $1.25 million of previously escrowed funds to the seller.

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 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:

- 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 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 June 30, 2022, we had 380,000 shares of Series C preferred 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 June 30, 2022, we had 5,041,878 shares of Class A common stock outstanding.

Class B Common Stock

As of June 30, 2022, we had 2,340,353 shares of Class B common stock outstanding, which have ten votes per share. Raúl Alarcón, our Chairman of the Board and Chief Executive Officer, has voting control over all but 350 shares of the Class B common stock.

Record Holders

As of June 30, 2022, there were approximately 98 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 six months ended June 30, 2022 and 2021, 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 unaudited condensed consolidated financial statements and accompanying notes.

	Six Months Ended June 30,		Change
	2022	2021	$
Capital expenditures:			
Radio	$ 1,413	$ 572	841
Television	307	457	(150)
Corporate	152	379	(227)
Consolidated	$ 1,872	$ 1,408	464
Net cash flows provided by operating activities	$ 6,426	$ 8,464	(2,038)
Net cash flows used in investing activities	(14,139)	(1,141)	(12,998)
Net cash flows used in financing activities	—	(19,089)	19,089
Net decrease in cash and cash equivalents	$ (7,713)	$ (11,766)	

Capital Expenditures

The change in capital expenditures was due to investments related to the Orlando and Tampa start-up radio stations acquired in April 2022.

Net Cash Flows Provided by Operating Activities

Changes in our net cash flows provided by operating activities were primarily the result of decreases in net working capital and operating income.

Net Cash Flows Used in Investing Activities

Changes in our net cash used in investing activities were primarily due to the acquisition of the Orlando and Tampa start-up radio stations in April 2022.

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 in February 2021.

Special Note Regarding Forward-Looking Statements

This Financial Reporting Package contains both historical and forward-looking statements. All statements other than statements of historical fact are, or may be deemed to be, forward-looking statements. Spanish Broadcasting System, Inc. 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 Financial Reporting Package. 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 (IRC) due to the recapitalization of the Company in 2021; we face risks relating to our ability to realize the anticipated synergies and growth as a result of our recent start-up acquisitions in the Orlando and Tampa markets; 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 COVID-19, could reduce our revenues and results of operations more dramatically than other companies that do not depend as much on these markets; cancellations, reductions, delays and seasonality in advertising could adversely affect our net revenues; the success of our radio stations depends on the popularity and appeal of our content, which is difficult to predict; the success of our television operation depends upon our ability to attract viewers and advertisers to our broadcast television operation; the loss of distribution agreements could materially adversely affect our results of operations; our business is affected by natural catastrophes that can disrupt our operations, by causing failure or destruction of satellites and transmitter facilities that we depend upon to distribute our programming; we may incur property and other losses that are not adequately covered by insurance; we must respond to rapid changes in technology, content creation, services and standards in order to remain competitive; cybersecurity risks could affect our operations and adversely affect our business; our business is dependent upon the performance of key employees, on-air talent and program hosts. Cost increases in the retention of such employees may adversely affect our profits. Impairment of our goodwill and other intangible assets deemed to have indefinite useful lives can cause our net income or net loss to fluctuate significantly; piracy of our programming and other content, including digital and Internet piracy, may decrease revenue received from the exploitation of our programming and other content and adversely affect our business and profitability; damage to our brands or reputation could adversely affect our company; our business may be adversely affected by legal or governmental proceedings brought by or on behalf of our employees. Raúl Alarcón, the Chairman of our Board of Directors 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 increased 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.