Quarterly Financial Reporting Package

FINANCIAL INFORMATION

INDEPENDENT AUDITOR’S REVIEW REPORT

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

Report on the Financial Statements

We have reviewed the accompanying condensed consolidated interim financial statements of Spanish Broadcasting System, Inc., which comprise the condensed consolidated balance sheet as of September 30, 2020, the related condensed consolidated statements of

Our auditor's report on those financial statements includes a separate section referring to the matters in Note 2 of those financial statements. As indicated in Note 1 of the accompanying interim financial information as of September 30, 2020, and for the nine months then ended, the Company was still unable to obtain financing in adequate amounts and on acceptable terms necessary to repay the 12.5% Senior Secured Notes, has a working capital deficiency and has experienced temporary disruption to the Company's core source

SPANISH BROADCASTING SYSTEM, INC. AND SUBSIDIARIES
Condensed Consolidated Balance Sheets
September 30, 2020 (unaudited) and December 31, 2019
(In thousands, except share data)

See accompanying notes to the unaudited condensed consolidated financial statements.

Healthcare Enhancement Act ("CARES 2.0") on April 21, 2020. Subsequently, on June 5, 2020, the Paycheck Protection Flexibility Act of 2020 ("Flexibility Act") was signed into law, amending the CARES Act. Based on the Company's analysis of the CARES Act, the benefits it has already taken advantage of or expects to recognize include:

of Level 2 and Level 3 financial instruments which include the Series B preferred stock, 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.

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5. 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):

Net revenue:								
Radio	$	25,084	$	32,493	$	70,323	$	99,564
Television		4,870		3,768		11,434		10,983
Consolidated	$	29,954	$	36,261	$	81,757	$	110,547
Engineering and programming expenses:								
Radio	$	5,116	$	5,688	$	13,661	$	16,370
Television		2,162		1,582		5,180		4,987
Consolidated	$	7,278	$	7,270	$	18,841		

Capital expenditures:				
Radio	$ 332	$ 802	$ 1,415	$ 1,828
Television	96	187	334	986
Corporate	38			

7. Commitments and Contingencies

We are subject to certain legal proceedings and claims that have arisen in the ordinary course of business and have not been fully adjudicated. In our opinion, we do not have a potential liability related to any current legal proceedings and claims that would individually or in the aggregate have a material adverse effect on our financial condition or operating results. However, the results of legal proceedings cannot be predicted with certainty. Should we fail to prevail in any of these legal matters or should all of these legal

The fair value of the 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 fair value of the Series B cumulative exchangeable redeemable preferred stock was based upon a weighted average analysis using the Black-Scholes method, an income approach, and the yield method resulting in a Level 3 classification. The Black-Scholes method utilized an estimate of the fair value of the SBS equity, volatility, an estimate of the time to liquidity, and a risk-free rate in the determination of the SBS preferred fair value. Key assumptions for the income and yield methods included the expected yield on preferred stock, accrued dividends, the principal amount of the Series B preferred stock, and an estimate of the time to liquidity. A discount for lack of marketability of the preferred stock was also utilized in the analysis. The outcome of the Series B preferred stock litigation may impact the fair value of the Series B preferred stock going forward.

Collateral and Ranking

The Notes and the guarantees are secured on a first-priority basis by a security interest in certain of the Company’s and the guarantors’ existing and future tangible and intangible assets (other than Excluded Assets (as defined in the Indenture)), which constitutes substantially all of the Company’s assets. The Notes and the guarantees are structurally subordinated to the obligations of our non-guarantor subsidiaries. The Notes and guarantees are senior to all of the Company’s and the guarantors’ existing and future unsecured indebtedness to the extent of the value of the collateral.

The Indenture permits us, under specified circumstances, to incur additional debt; however, the occurrence and continuance of the Voting Rights Triggering Event (as defined in Note 10 of the Notes to the Unaudited Condensed Consolidated Financial Statements) currently prevents us from incurring any such additional debt.

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representative of an alien or upon a showing that its ownership of Series B preferred stock (including stakes held by any non-U.S. entities) complies with Section 310((i),T.5(h)4.2(f)8(ng t)61.6(e)1 C4(Bc)4.3(om).3(o8(un6.9(i)4.2(c)6.9(a)4.2(t)6.9(i)o.1( )4.3(s)9A4(w)4.2(

whether or not earned or declared, and are payable quarterly in arrears on specified dividend payment dates. While the Voting Rights Triggering Event continues, we cannot pay dividends on the Series B preferred stock without causing a breach of covenants under the Indenture governing our Notes.

As of September 30, 2020, the aggregate cumulative unpaid dividends on the outstanding shares of the Series B preferred stock was approximately $101.8 million, which is accrued on our condensed consolidated balance sheet as 10 ¾% Series B cumulative exchangeable redeemable preferred stock.

Accounting Treatment of the Preferred Stock

The Series B preferred stock will be 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 will be recorded as interest expense (i.e. "Dividends on Series B preferred stock classified as interest expense") as required by ASC 480. For the three-months ended 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

13. Deregistration of Securities

The COVID-19 pandemic has provided need, reason and basis for the Company to reduce expenses and operate with utmost efficiency. With that continuing goal and objective, the decision of the Company to deregister the Company's Class A common stock, $0.0001 par value per share (the "Class A Common Stock") was driven by elimination of the costs and administrative burdens of

Management's Discussion and Analysis of Financial Condition and Results of Operations

General Overview

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

Standard 20 *Accounting for Government Grants and Disclosure of Government Assistance* (“IAS 20”) since in substance the PPP Loan is a grant that is expected to be forgiven as the Company has used the proceeds to maintain employment and compensation levels and pay benefits.

National and network revenue ge

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 September 30, 2020 and 2019

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

Net revenue:				
Radio	$	25,084	$	32,493
Television		4,870		3,768
Consolidated	$	29,954	$	36,261
Engineering and programming expenses:				
Radio	$	5,116	$	5,688
Television		2,162		1,582
Consolidated	$	7,278	$	7,270

The following summary table presents a comparison of our results of operations for the three-months ended September 30,

Gain on Disposal of Assets, net of disposal costs

The gain on disposal of assets of $0.1 million was primarily related to settling the early termination of an abandoned lease partially offset by a loss on the disposal of certain damaged transmission related fixed assets.

Recapitalization Costs

The Company incurred $1.2 million of recapitalization costs, a decrease of $0.7 million, primarily due to professional fees related to the current process of evaluating all options available towards executing a comprehensive recapitalization plan, as described

Comparison Analysis of the Operating Results for the

The following summary table presents a comparison of our results of operations for the nine-months ended September 30, 2020 and 2019 (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.

Net revenue	$ 81,757	$ 110,547
Engineering and programming expenses	18,841	21,357
Selling, general and administrative expenses	38,701	49,508
Corporate expenses	6,603	8,510
Depreciation and amortization	2,482	2,671

Selling, General and Administrative Expenses

The decrease in our consolidated selling, general and administrative expenses of approximately $10.8 million or 22% was due to an expense decrease in both our radio and television segments expenses. Our radio segment expenses decrease of $10.2 million or 23% was primarily due to the decreases in compensation, commissions, barter, special events, advertising and promotions expenses, and professional fees which were partially offset by an increase in our allowance for doubtful accounts. Our television segment expenses decrease of $0.6 million or 13% was primarily due to the decreases in professional fees and compensation expenses partially cotiallbt2(de)4al2(c)4.P.9()6P.9()6P.9()6 (e)4.2(s a)4.3(l)433(l)4.3d2(de54e)4.2(xpe$f)1.3acotc

Liquidity and Capital Resources

Our strategy is to primarily utilize cash flows from operations to meet our ordinary course operating obligations. Assumptions which underlie management's beliefs with respect to operating activities include the following:

- the significant deterioration in economic conditions and demand for advertising within the broadcasting industry due to the COVID-19 pandemic is expected to be temporary as evidenced by conditions that have steadily improved sequentially on a month to month basis during the third quarter;
- despite the consequences resulting from the occurrence of the Voting Rights Triggering Event, we will continue to

The Certificate of Designations entitles the holders of the Series B preferred stock to receive dividends when, and if, declared by the Board of Directors.

Holders of the Series B preferred stock have customary protective provisions. The Certificate of Designations contains covenants that, among other things, limit our ability to: (i) pay dividends, purchase junior securities and make restricted investments or other restricted payments; (ii) incur indebtedness, including refinancing indebtedness; (iii) merge or consolidate with other companies or transfer all or substantially all of our assets; and (iv) engage in transactions with affiliates. Upon a change of control, we will be required to make an offer to purchase these shares at a price of 101% of the aggregate liquidation preference of these shares plus accumulated and unpaid dividends to, but excluding the purchase date.

The Certificate of Designations provided holders the right, on October 15, 2013, to require us to repurchase their shares, subject to the legal availability of funds. At the option of the holder, we were required to repurchase the Series B preferred stock at a purchase price equal to 100% of the liquidation preference, or $1,000 per share, plus accrued and unpaid dividends. Certain holders of the Series B preferred stock exercised their repurchase option, but we were unable to fully repurchase the Series B preferred stock for which repurchases were requested, resulting in a continuing Voting Rights Triggering Event. During the continuation of a Voting Rights Triggering Event, certain restrictions are imposed on us, including (i) a prohibition on our ability to incur additional new indebtedness, (ii) restrictions on our ability to make restricted payments and (iii) restrictions on our ability to merge or consolidate with other companies or transfer all or substantially all of our assets. In addition, upon the incurrence and during the pendency of a Voting Rights Triggering Event, the holders of the Series B preferred stock have the right to elect two members to our Board of Directors. A Voting Rights Triggering Event shall continue until (i) all dividends in arrears shall have been paid in full and (ii) all other failures, breaches or defaults giving rise to such Voting Rights Triggering Event are remedied or waived by the holders of at least a majority of the shares of the then outstanding Series B preferred stock.

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Summary of Capital Resources

The following summary table presents a comparison of our capital resources for the nine-months ended September 30, 2020 and 2019, with reserces

Critical Accounting Policies

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts and related disclosures. We consider an accounting estimate to be critical if:

it requires assumptions to be made that were uncertain at the time the estimate was made; and

changes in the estimate or different estimates that could have been selected could have a material impact on our results of operations or financial condition.

These estimates require the use of judgment as future events and the effect of these events cannot be predicted with certainty. The estimates will change as new events occur, as more experience is acquired and as more information is obtained. We evaluate and update our assumptions and estimates on an ongoing basis and we may consult outside experts to assist as considered necessary.

The COVID-19 pandemic continues to create significant uncertainty and disruption in the global economy and financial markets. It is reasonably possible that these uncertainties could materially impact our estimates related to, but not limited to, allowance for doubtful accounts, 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.

Our critical accounting policies are described in Item 7 of our Annual Report. There have been no material changes to our critical accounting policies during the nine-months ended September 30, 2020.

New Accounting Policy – Paycheck Protection Program Loan

In June 2020, the American Institute of CPAs (the "AICPA") issued guidance on the different ways in which businesses can account for forgivable PPP Loans. The Company has accounted for the PPP Loan under IAS 20 as the Company believes it has met the eligibility criteria and that the PPP loan represents, in substance, a grant that is expected to be forgiven. During the nine-month periods ended September 30, 2020, in accordance with IAS 20, the Company has systematically recorded the $6.5 million earnings impact, over the period in which the Company recognized the expenses that the PPP Loan was intended to compensate, within operating income on its consolidated statements of operations. During the nine months ended September 30, 2020, the Company also recognized the $6.5 million cash impact of the PPP Loan within its cash flows from operations on its consolidated statement of cash flows. Refer to Note 1. Basis of Presentation—Impact of the COVID-19 Pandemic, of the Notes to the unaudited condensed consolidated financial statements.