UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2014

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from ________ to ________

Commission file number 000-27823

Spanish Broadcasting System, Inc.
(Exact name of registrant as specified in its charter)

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
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐	Accelerated filer ☐
Non-accelerated filer ☐ (Do not check if a smaller reporting company)	Smaller reporting company ☒

Indicate by a check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of November 12, 2014, 4,166,991 shares of Class A common stock, par value $0.0001 per share, 2,340,353 shares of Class B common stock, par value $0.0001 per share and 380,000 shares of Series C convertible preferred stock, $0.01 par value per share, which are convertible into 760,000 shares of Class A common stock, were outstanding.

SPANISH BROADCASTING SYSTEM, INC.

INDEX

Special Note Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q 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 within the meaning of Section 27A of the Securities Act of 1933, as amended, (the “Securities Act”) and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). These forward-looking statements are not based on historical facts, but rather reflect our current expectations concerning future results and events. These forward-looking statements generally can be identified by the use of statements that include phrases such as “believe”, “expect”, “anticipate”, “intend”, “estimate”, “plan”, “project”, “foresee”, “likely”, “will” or other words or phrases with similar meanings. Similarly, statements that describe our objectives, plans or goals are, or may be, forward-looking statements. These forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause our actual results, performance or achievements to be different from any future results, performance and anticipated achievements expressed or implied by these statements. We do not intend to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. In addition, forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from our historical experience and our present expectations or projections. These risks and uncertainties include, but are not limited to those described in our Annual Report on Form 10-K for the year ended December 31, 2013, and those described from time to time in our future reports filed with the Securities and Exchange Commission (the “SEC”).

PART I. FINANCIAL INFORMATION

Item 1. ***Financial Statements—Unaudited***

SPANISH BROADCASTING SYSTEM, INC. AND SUBSIDIARIES

Unaudited Condensed Consolidated Balance Sheets

(In thousands, except share data)

Assets		**September 30, 2014**		**December 31, 2013**
Current assets:				
Cash and cash equivalents	$	30,770	$	23,566
Receivables:				
Trade		28,536		31,665
Barter		294		460
		28,830		32,125
Less allowance for doubtful accounts		2,024		2,204
Net receivables		26,806		29,921
Prepaid expenses and other current assets		3,436		2,778
Total current assets		61,012		56,265
Property and equipment, net of accumulated depreciation of $68,397 in 2014 and $65,550 in 2013		33,354		35,420
FCC broadcasting licenses		323,055		323,055
Goodwill		32,806		32,806
Other intangible assets, net of accumulated amortization of $900 in 2014 and $828 in 2013		1,648		1,720
Deferred financing costs, net of accumulated amortization of $8,866 in 2014 and $6,352 in 2013		8,750		11,264
Other assets		769		1,218
Total assets	$	461,394	$	461,748
Liabilities and Stockholders' Deficit				
Current liabilities:				
Accounts payable and accrued expenses	$	18,751	$	19,593
Accrued interest		15,798		7,271
Unearned revenue		372		512
Other liabilities		308		497
Current portion of other long-term debt		339		3,004
10 3/4% Series B cumulative exchangeable redeemable preferred stock outstanding and dividends outstanding, $0.01 par value, liquidation value $1,000 per share. Authorized 280,000 shares: 90,549 shares issued and outstanding at September 30, 2014 and December 31, 2013 and $43,397 and $36,097 of dividends payable as of September 30, 2014 and December 31, 2013, respectively.		133,946		126,646
Total current liabilities		169,514		157,523
Other liabilities, less current portion		405		504
Derivative instruments		456		602
12.5% senior secured notes due 2017, net of unamortized discount of $4,742 in 2014 and $5,862 in 2013		270,258		269,138
Other long-term debt, less current portion		5,004		5,258
Deferred income taxes		84,044		83,172
Total liabilities		529,681		516,197
Commitments and contingencies (note 6)				
Stockholders' deficit:				
Series C convertible preferred stock, $0.01 par value and liquidation value. Authorized 600,000 shares; 380,000 shares issued and outstanding at September 30, 2014 and December 31, 2013, respectively		4		4
Class A common stock, $0.0001 par value. Authorized 100,000,000 shares; 4,166,991 shares issued and outstanding at September 30, 2014 and December 31, 2013, respectively		—		—
Class B common stock, $0.0001 par value. Authorized 50,000,000 shares; 2,340,353 shares issued and outstanding at September 30, 2014 and December 31, 2013, respectively		—		—
Additional paid-in capital		525,335		525,334
Accumulated other comprehensive loss, net		(456)		(602)
Accumulated deficit		(593,170)		(579,185)
Total stockholders' deficit		(68,287)		(54,449)
Total liabilities and stockholders' deficit	$	461,394	$	461,748

See accompanying notes to the unaudited condensed consolidated financial statements.

SPANISH BROADCASTING SYSTEM, INC. AND SUBSIDIARIES

Unaudited Condensed Consolidated Statements of Operations
and Comprehensive (Loss) Income
(In thousands, except per share data)

	Three-Months Ended September 30,		Nine-Months Ended September 30,	
	2014	2013	2014	2013
Net revenue	$ 36,278	41,082	$ 109,944	116,252
Operating expenses:				
Engineering and programming	7,906	8,441	22,992	22,188
Selling, general and administrative	16,935	18,953	52,393	52,967
Corporate expenses	2,098	2,371	7,546	7,413
Depreciation and amortization	1,272	1,237	3,806	3,911
Total operating expenses	28,211	31,002	86,737	86,479
(Gain) loss on the disposal of assets	—	(3)	(1,204)	(25)
Impairment charges and restructuring costs	(30)	(136)	(103)	889
Operating income	8,097	10,219	24,514	28,909
Other (expense) income:				
Interest expense, net	(9,927)	(9,924)	(29,797)	(29,794)
Dividends on Series B preferred stock classified as interest expense	(2,433)	—	(7,300)	—
(Loss) income before income taxes	(4,263)	295	(12,583)	(885)
Income tax expense	402	189	1,402	512
Net (loss) income	(4,665)	106	(13,985)	(1,397)
Dividends on Series B preferred stock	—	(2,482)	—	(7,446)
Net loss available to common stockholders	$ (4,665)	(2,376)	$ (13,985)	(8,843)
Basic and Diluted net loss per common share	$ (0.64)	(0.33)	$ (1.92)	(1.22)
Weighted average common shares outstanding:				
Basic and Diluted	7,267	7,267	7,267	7,267
Net (loss) income	$ (4,665)	106	$ (13,985)	(1,397)
Other comprehensive (loss) income, net of taxes- unrealized gain on derivative instrument	71	18	146	156
Total comprehensive (loss) income	$ (4,594)	124	$ (13,839)	(1,241)

See accompanying notes to the unaudited condensed consolidated financial statements.

SPANISH BROADCASTING SYSTEM, INC. AND SUBSIDIARIES

Unaudited Condensed Consolidated Statement of Changes in Stockholders' Deficit
for the Nine-Months Ended September 30, 2014
(In thousands, except share data)

	Series C convertible preferred stock		Class A common stock		Class B common stock					
	Number of shares	Par value	Number of shares	Par value	Number of shares	Par value	Additional paid-in capital	Accumulated other comprehensive loss, net	Accumulated deficit	Total stockholders' deficit
Balance at December 31, 2013	380,000	$ 4	4,166,991	$ —	2,340,353	$ —	$ 525,334	$ (602)	$ (579,185)	$ (54,449)
Stock-based compensation	—	—	—	—	—	—	1	—	—	1
Net loss	—	—	—	—	—	—	—	—	(13,985)	(13,985)
Unrealized gain on derivative instrument	—	—	—	—	—	—	—	146	—	146
Balance at September 30, 2014	380,000	$ 4	4,166,991	$ —	2,340,353	$ —	$ 525,335	$ (456)	$ (593,170)	$ (68,287)

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)

	Nine-Months Ended September 30, 2014	Nine-Months Ended September 30, 2013
Cash flows from operating activities:		
Net loss	$ (13,985)	$ (1,397)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Dividends on Series B preferred stock classified as interest expense	7,300	—
(Gain) loss on the disposal of assets	(1,204)	(25)
Impairment charges	(103)	889
Stock-based compensation	1	41
Depreciation and amortization	3,806	3,911
Net barter (income) loss	(125)	(182)
Provision for trade doubtful accounts	261	585
Amortization of deferred financing costs	2,514	2,501
Amortization of original issued discount	1,120	982
Deferred income taxes	872	428
Unearned revenue-barter	151	370
Changes in operating assets and liabilities:		
Trade receivables	2,688	(3,744)
Prepaid expenses and other current assets	(658)	(1,489)
Other assets	449	(537)
Accounts payable and accrued expenses	(708)	3,295
Accrued interest	8,527	8,485
Other liabilities	(185)	(197)
Net cash provided by operating activities	10,721	13,916
Cash flows from investing activities:		
Purchases of property and equipment	(1,868)	(1,469)
Proceeds from the sale of property and equipment	1,270	36
Net cash used in investing activities	(598)	(1,433)
Cash flows from financing activities:		
Payment of Series B preferred stock and/or related cash dividends	—	(2,483)
Payments of other long-term debt	(2,919)	(2,923)
Net cash used in financing activities	(2,919)	(5,406)
Net increase in cash and cash equivalents	7,204	7,077
Cash and cash equivalents at beginning of period	23,566	26,660
Cash and cash equivalents at end of period	$ 30,770	$ 33,737
Supplemental cash flows information:		
Interest paid	$ 17,615	$ 17,795
Income tax paid	$ 358	$ —
Noncash investing and financing activities:		
Unrealized gain on derivative instruments	$ 146	$ 156
Accrual of Series B preferred stock dividends not declared	$ —	$ 4,963

See accompanying notes to the unaudited condensed consolidated financial statements.

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 September 30, 2014 and December 31, 2013 and for the three- and nine-month periods ended September 30, 2014 and 2013 have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial information and with the instructions to Form 10-Q and Article 8-03 of Regulation S-X. They do not include all information and notes required by U.S. GAAP for complete financial statements. These unaudited condensed consolidated financial statements should be read in conjunction with our consolidated financial statements as of, and for the fiscal year ended December 31, 2013, included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2013. 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. Certain 2013 amounts have been reclassified to conform to the current year presentation. Additionally, we evaluated subsequent events after the balance sheet date of September 30, 2014 through the financial statements issuance date. The results of operations for the nine-months ended September 30, 2014 are not necessarily indicative of the results for the entire year ending December 31, 2014, or for any other future interim or annual periods.

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions about future events that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities at the date of the financial statements. 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, goodwill and other intangible assets, the fair value of Level 2 and Level 3 financial instruments, 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 changes in advertising spending levels have combined to increase the uncertainty inherent in such estimates and assumptions. Actual results could differ from these estimates.

Our consolidated financial statements have been prepared on a going-concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. As of September 30, 2014, we had a working capital deficit due to the reclassification of our Series B preferred stock as a current liability, although under Delaware law, our state of incorporation, the Series B preferred stock is deemed equity. Because the holders of the Series B preferred stock are not creditors, they do not have rights of, or remedies available to, creditors. Delaware law does not recognize a right of preferred stockholders to force redemptions or repurchases where the corporation does not have funds legally available. Currently, we do not have sufficient funds legally available to be able to repurchase the Series B preferred stock and its accumulated unpaid dividends and management does not expect to be required to make any such repurchases during the next twelve months. Management does not believe that the Series B preferred stockholders have legal remedies that would require such repurchases (see note 10).

Recently Issued Accounting Pronouncements

In August 2014, the FASB issued ASU No. 2014-15, *Presentation of Financial Statements- Going Concern.* This new standard defines management's responsibility to evaluate whether there is substantial doubt about an organization's ability to continue as a going concern and to provide related footnote disclosures. The standard is effective for annual reporting periods ending after December 15, 2016 and interim periods thereafter. We are currently evaluating the impact, if any, that this new standard will have on our financial position and results of operations.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers.* This new standard provides guidance for the recognition, measurement and disclosure of revenue resulting from contracts with customers and will supersede virtually all of the current revenue recognition guidance under U.S. GAAP. The standard is effective for the first interim period within annual reporting periods beginning after December 15, 2016. We are currently evaluating the impact, if any, that this new standard will have on our financial position and results of operations.

2. Stockholders' Deficit

(a) Series C Convertible Preferred Stock

On December 23, 2004, in connection with the closing of the merger agreement, dated October 5, 2004, with CBS Radio (formerly known as Infinity Media Corporation, CBS Radio), a division of CBS Corporation, Infinity Broadcasting Corporation of

San Francisco ("Infinity SF") and SBS Bay Area, LLC, a wholly-owned subsidiary of SBS, pursuant to which SBS acquired the FCC license of Infinity SF (the "CBS Radio Merger"), we issued to CBS Radio an aggregate of 380,000 shares of Series C convertible preferred stock, $0.01 par value per share (the "Series C preferred stock"). Each share of Series C preferred stock is convertible at the option of the holder into two fully paid and non-assessable shares of the Class A common stock. The shares of Series C preferred stock issued at the closing of the CBS Radio Merger are convertible into 760,000 shares of Class A common stock, subject to certain adjustments. In connection with the CBS Radio Merger, we also entered into a registration rights agreement with CBS Radio, pursuant to which CBS Radio may instruct us to file up to three registration statements, on a best efforts basis, with the SEC, providing for the registration for resale of the Class A common stock issuable upon conversion of the Series C preferred stock.

We are required to pay holders of Series C preferred stock dividends on parity with our Class A common stock and Class B common stock, and each other class or series of our capital stock created after December 23, 2004.

(b) Class A and B Common Stock

The rights of the Class A common stockholders and Class B common stockholders are identical except with respect to their voting rights and conversion provisions. The Class A common stock is entitled to one vote per share and the Class B common stock is entitled to ten votes per share. The Class B common stock is convertible to Class A common stock on a share-for-share basis at the option of the holder at any time, or automatically upon a transfer of the Class B common stock to a person or entity which is not a permitted transferee (as described in our Certificate of Incorporation). Holders of each class of common stock are entitled to receive dividends and, upon liquidation or dissolution, are entitled to receive all assets available for distribution to stockholders. Neither the holders of the Class A common stock nor the holders of the Class B common stock have preemptive or other subscription rights, and there are no redemption or sinking fund provisions with respect to such shares. Each class of common stock is subordinate to our 10 $^{3}/_{4}$% Series B cumulative exchangeable redeemable preferred stock, par value $0.01 per share (the "Series B preferred stock"). The Series B preferred stock has a liquidation preference of $1,000 per share and is on parity with the Series C preferred stock with respect to dividend rights and rights upon liquidation, winding up and dissolution of SBS.

(c) Share-Based Compensation Plans

2006 Omnibus Equity Compensation Plan

In July 2006, we adopted an omnibus equity compensation plan (the "Omnibus Plan") in which grants of Class A common stock can be made to participants in any of the following forms: (i) incentive stock options, (ii) nonqualified stock options, (iii) stock appreciation rights, (iv) stock units, (v) stock awards, (vi) dividend equivalents, and (vii) other stock-based awards. The Omnibus Plan authorizes up to 350,000 shares of our Class A common stock for issuance, subject to adjustment in certain circumstances. The Omnibus Plan provides that the maximum aggregate number of shares of Class A common stock units, stock awards and other stock-based awards that may be granted, other than dividend equivalents, to any individual during any calendar year is 100,000 shares, subject to adjustments.

Stock Options Activity

Stock options have only been granted to employees and directors. Our stock options have various vesting schedules and are subject to the employees and directors continuing their service to SBS. We recognize compensation expense based on the estimated grant date fair value using the Black-Scholes option pricing model and recognize the compensation expense using a straight-line amortization method. When estimating forfeitures, we consider voluntary termination behaviors, as well as trends of actual option forfeitures. Ultimately, our stock-based compensation expense is based on awards that vest. Our stock-based compensation has been reduced for estimated forfeitures.

A summary of the status of our stock options, as of December 31, 2013 and September 30, 2014, and changes during the nine-months ended September 30, 2014, is presented below (in thousands, except per share data):

	Shares	Weighted Average Exercise Price	Aggregate Intrinsic Value	Weighted Average Remaining Contractual Life (Years)
Outstanding at December 31, 2013	142	$ 34.77		
Granted	—	—		
Exercised	—	—		
Forfeited	(10)	104.65		
Outstanding at September 30, 2014	132	$ 29.20	$ 66	4.2
Exercisable at September 30, 2014	132	$ 29.20	$ 66	4.2

During the nine-months ended September 30, 2014 and 2013, no stock options were exercised; therefore, no cash payments were received. In addition, we did not recognize a tax benefit on our stock-based compensation expense due to our valuation allowance on substantially all of our deferred tax assets.

The following table summarizes information about stock options outstanding and exercisable at September 30, 2014 (in thousands, except per share data):

	Outstanding				Exercisable	
Range of Exercise Prices	Vested Options	Unvested Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Number Exercisable	Weighted Average Exercise Price
$1.03 - 49.99	102	-	$ 12.41	5.3	102	$ 12.41
50.00 - 99.99	21	-	80.84	0.6	21	80.84
100.00 - 117.80	9	-	107.09	0.4	9	107.09
	132	-	29.20	4.2	132	29.20

(d) Accumulated Other Comprehensive (Loss) Income

Our accumulated other comprehensive (loss) income is comprised of accumulated gains and losses on a derivative instrument (interest rate swap) that qualifies for cash flow hedge treatment. Our total comprehensive (loss) income consists of our net loss and a gain (loss) on our interest rate swap for the respective periods. The gain on the interest rate swap is shown net of taxes; however, there is no tax effect as a result of a full deferred tax asset valuation allowance related to the interest rate swap.

For the three-months ended September 30, 2014 and 2013, we reclassified from other comprehensive loss to interest expense $0.1 million. During the three-months ended September 30, 2014 and 2013, we recognized in other comprehensive loss, net of taxes- an unrealized gain on derivative instrument of approximately $71 thousand and $18 thousand, respectively.

For the nine-months ended September 30, 2014 and 2013, we reclassified from other comprehensive loss to interest expense $0.2 million. During the nine-months ended September 30, 2014 and 2013, we recognized in other comprehensive loss, net of taxes- an unrealized gain on derivative instrument of approximately $0.1 million and $0.2 million, respectively.

3. Basic and Diluted Net Loss Per Common Share
Basic net loss per common share was computed by dividing net loss applicable to common stockholders by the weighted average number of shares of common stock and convertible preferred stock outstanding for each period presented, using the “if converted” method. Diluted net loss per common share is computed by giving effect to common stock equivalents as if they were outstanding for the entire period.

The following is a reconciliation of the shares used in the computation of basic and diluted net loss per share for the three- and nine-month periods ended September 30, 2014 and 2013 (in thousands):

	Three-Months Ended September 30,		Nine-Months Ended September 30,	
	2014	2013	2014	2013
Basic weighted average shares outstanding	7,267	7,267	7,267	7,267
Effect of dilutive equity instruments	—	—	—	—
Dilutive weighted average shares outstanding	7,267	7,267	7,267	7,267
Options to purchase shares of common stock and other stock-based awards outstanding which are not included in the calculation of diluted net income per share because their impact is anti-dilutive	98	125	100	133

4. 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 September 30,		Nine-Months Ended September 30,	
	2014	2013	2014	2013
Net revenue:				
Radio	$ 32,713	35,428	$ 98,177	100,634
Television	3,565	5,654	11,767	15,618
Consolidated	$ 36,278	41,082	$ 109,944	116,252
Engineering and programming expenses:				
Radio	$ 5,508	6,086	$ 15,938	15,795
Television	2,398	2,355	7,054	6,393
Consolidated	$ 7,906	8,441	$ 22,992	22,188
Selling, general and administrative expenses:				
Radio	$ 15,054	15,771	$ 46,145	43,810
Television	1,881	3,182	6,248	9,157
Consolidated	$ 16,935	18,953	$ 52,393	52,967
Corporate expenses:	$ 2,098	2,371	$ 7,546	7,413
Depreciation and amortization:				
Radio	$ 487	470	$ 1,468	1,462
Television	684	692	2,066	2,227
Corporate	101	75	272	222
Consolidated	$ 1,272	1,237	$ 3,806	3,911
(Gain) loss on the disposal of assets, net:				
Radio	$ —	(3)	$ (1,204)	(12)
Television	—	—	—	—
Corporate	—	—	—	(13)
Consolidated	$ —	(3)	$ (1,204)	(25)
Impairment charges and restructuring costs:				
Radio	$ —	—	$ —	86
Television	—	—	—	1,000
Corporate	(30)	(136)	(103)	(197)
Consolidated	$ (30)	(136)	$ (103)	889
Operating income (loss):				
Radio	$ 11,664	13,104	$ 35,830	39,493
Television	(1,398)	(575)	(3,601)	(3,159)
Corporate	(2,169)	(2,310)	(7,715)	(7,425)
Consolidated	$ 8,097	10,219	$ 24,514	28,909
Capital expenditures:				
Radio	$ 385	198	$ 1,167	808
Television	131	49	356	320
Corporate	155	230	345	341
Consolidated	$ 671	477	$ 1,868	1,469

	September 30, 2014	December 31, 2013
Total Assets:		
Radio	$ 398,279	$ 391,134
Television	52,159	56,909
Corporate	10,956	13,705
Consolidated	$ 461,394	$ 461,748

5. Income Taxes

We are calculating our effective income tax rate using a year-to-date income tax calculation, with the exception of one of our Puerto Rico subsidiaries for which we calculate the income tax expense based on our projected effective tax rate. Our income tax expense differs from the statutory federal tax rate of 35% and related statutory state tax rates, primarily due to the change in the valuation allowance on substantially all of our deferred tax assets with the exception of one of our Puerto Rico subsidiaries.

We file federal, state and local income tax returns in the United States and Puerto Rico. The tax years that remain subject to assessment of additional liabilities by the United States federal tax authorities are 2011 through 2013. The tax years that remain subject to assessment of additional liabilities by state and local tax authorities are 2007 through 2013. The tax years that remain subject to assessment of additional liabilities by the Puerto Rico tax authority are 2010 through 2013.

We are subject to certain legal proceedings and claims that have arisen in the ordinary course of business and have not been fully adjudicated, including an ongoing audit by a State tax authority (the State) for the income tax years from December 31, 2007 through 2010. On a preliminary basis, the State has indicated that it will seek significant additional taxes for the periods under audit, although to date, we have not received a Notice of Deficiency, and therefore it is not possible to estimate a range of loss at this time. Should the State prevail, additional amounts would likely be due for the years 2011 through 2014, plus interest for each of the years beginning with 2007. We are unable to predict the impact of this audit on our financial position and results of operations at this time; however, we believe that it is “more likely than not” that our tax positions will be sustained and intend to contest their claims.

Based on our evaluation, we have concluded that there are no significant uncertain tax positions requiring recognition in our consolidated financial statements as of September 30, 2014 and December 31, 2013.

6. Commitments and Contingencies

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

Litigation-Lehman and T. Rowe Price Complaint

On February 14, 2013, Lehman Brothers Holdings Inc. (“LBHI”) brought a claim against us in the Delaware Court of Chancery (the “Court”) seeking, among other things, a declaratory judgment that as a result of non-payment of dividends, a Voting Rights Triggering Event had occurred pursuant to the certificate of designations for the Series B preferred stock (the “Certificate of Designations”) no later than July 15, 2010. LBHI alleged that as a result, we were prohibited from incurring indebtedness but did so for the purposes of purchasing assets relating to our Houston television station and the issuance of our 12.5% Senior Secured Notes due 2017 (the “Notes”). LBHI also sought an award of unspecified contract damages.

We filed a motion to dismiss the LBHI complaint on March 11, 2013. On April 25, 2013, LBHI filed an opposition to our motion to dismiss and a motion for partial summary judgment. We filed a reply in further support of our motion to dismiss and in opposition to LBHI’s motion for partial summary judgment on May 10, 2013. A hearing on the parties’ motions was held on May 20, 2013, at which the Court requested further briefing on cross-motions for summary judgment.

Additionally, on June 17, 2013, T. Rowe Price High Yield Fund, Inc., T. Rowe Price Institutional High Yield Fund, T. Rowe Price Funds SICAV-Global High Yield Bond Fund and T. Rowe Price Small-Cap Value Fund, Inc. (collectively “T. Rowe Price” and with LBHI, the “Plaintiffs”) brought a claim against us making allegations substantially similar to those made by LBHI previously, except with an additional claim for breach of the implied covenant of good faith and fair dealing.

On July 3, 2013, the Court granted the Plaintiffs’ motion to consolidate their lawsuits; and on October 3, 2013, LBHI moved to amend its original complaint by adding a claim for breach of the implied covenant of good faith and fair dealing. We moved for judgment on the pleadings as to both T. Rowe Price’s and LBHI’s good faith and fair dealing claims. In addition, we and the Plaintiffs submitted cross-motions for summary judgment on October 31, 2013.

On February 25, 2014, Vice Chancellor Glasscock rendered the opinion of the Court granting our motions for summary judgment and judgment on the pleadings, and denying the Plaintiffs’ motion for summary judgment. Accordingly, the Plaintiffs’ claims were dismissed. On April 8, 2014, LBHI filed a Notice of Appeal to the Delaware Supreme Court. T. Rowe Price did not file a Notice of Appeal, and the appeal deadline has now passed. We filed a Notice of Cross-Appeal on April 23, 2014. LBHI's Opening

Brief on appeal was filed on May 27, 2014, and our Answering Brief on appeal and Opening Brief on cross-appeal was filed on June 26, 2014. LBHI's Reply Brief on appeal and Answering Brief on cross-appeal was filed on July 28, 2014, and our Reply Brief on cross-appeal was filed on August 7, 2014. A hearing on the appeal and cross-appeal is scheduled for December 10, 2014.

Brevan Howard and Others Complaint

On December 27, 2013, River Birch Master Fund, L.P., P River Birch Ltd. (together, "River Birch") and Visium Catalyst Credit Master Fund, Ltd. (collectively with River Birch, "Initial Plaintiffs") brought a claim against us in the Court seeking a declaratory judgment that a Voting Rights Triggering Event had occurred (as of April 15, 2010) under our Certificate of Designations as a result of our non-payment of dividends. The claim states that as a result of such Voting Rights Triggering Event, the incurrence of indebtedness for the purpose of purchasing our Houston television station and the issuance of our Notes under the Indenture governing the Notes were prohibited incurrences of indebtedness under the Certificate of Designations.

The Initial Plaintiffs further claim that we violated the Certificate of Designations by failing to take any actions or explore any options that would have given us legally available funds with which to repurchase the outstanding Series B preferred stock on October 15, 2013. In connection with their claims, Initial Plaintiffs also seek an award of contract damages. On January 17, 2014, we filed a motion to dismiss the complaint. On March 3, 2014, the complaint was amended to remove River Birch and add Brevan Howard Credit Catalyst Master Fund Ltd., Brevan Howard Master Fund, ALJ Capital I, LP, ALJ Capital II, LP, LJR Capital, LP, and Cedarview Opportunities Master Fund, LP as additional plaintiffs. Plaintiffs filed an answering brief to our Motion to Dismiss on April 30, 2014. Our reply brief was filed on May 16, 2014, and a hearing was held on our Motion to Dismiss on June 10, 2014. Following the hearing, the parties agreed to stay all proceedings relating to Count I (which seeks a declaration that a VRTE was in effect at all times after April 15, 2010), Count II (which alleges that SBS breached the Certificate of Designations by incurring indebtedness in 2011 and 2012) and Count IV (which alleges that SBS breached the implied covenant of good faith and fair dealing by deferring certain dividends) of the complaint. On June 27, 2014, the Court denied our motion to dismiss Count III (which alleges that SBS breached the Certificate of Designations by failing to redeem all of the Series B Preferred Stock on October 15, 2013) of the complaint. We deny the allegations contained in the complaint and, to the contrary, assert that we have been and continue to be in full and complete compliance with all of our obligations under the Certificate of Designations, as fully disclosed in our public filings dating back to 2009. Accordingly, we believe that the complaint's allegations are frivolous and wholly without merit and intend to contest such allegations vigorously.

7. Fair Value Measurement Disclosures

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 senior secured notes are 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 and the promissory notes payable were based upon either: (a) unobservable market quotes from a major financial institution taking into consideration the most recent activity or (b) discounted cash flow analyses based on the current borrowing rates for similar types of borrowing arrangements resulting in a Level 3 classification.

The estimated fair values of our financial instruments are as follows (in millions):

Description	Fair Value Hierarchy	September 30, 2014 Carrying Amount	September 30, 2014 Fair Value	December 31, 2013 Carrying Amount	December 31, 2013 Fair Value
12.5% senior secured notes due 2017	Level 2	$ 275.0	296.8	$ 275.0	297.7
10 3/4% Series B cumulative exchangeable redeemable preferred stock	Level 3	133.9	60.1	126.6	37.8
Promissory note payable, included in other long-term debt	Level 3	5.3	4.6	5.5	4.5
Promissory note payable, included in other long-term debt	Level 3	—	—	2.7	2.7

Fair Value of Derivative Instruments

The following table represents required quantitative disclosures regarding fair values of our derivative instruments (in thousands).

		Fair value measurements at September 30, 2014		
		Liabilities		
Description	September 30, 2014 carrying value and balance sheet location of derivative instruments	Quoted prices in active markets for identical instruments (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Derivative designated as a cash flow hedging instrument:				
Interest rate swap liability	$ 456	—	456	—

		Fair value measurements at December 31, 2013		
		Liabilities		
Description	December 31, 2013 carrying value and balance sheet location of derivative instruments	Quoted prices in active markets for identical instruments (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Derivative designated as a cash flow hedging instrument:				
Interest rate swap liability	$ 602	—	602	—

The interest rate swap fair value is derived from the present value of the difference in cash flows based on the forward-looking LIBOR yield curve rates, as compared to our fixed rate applied to the hedged amount through the term of the agreement, less adjustments for credit risk. There were no transfers between Levels during the three- and nine-month periods ended September 30, 2014 and 2013, respectively.

	Three-Months Ended September 30,		Nine-Months Ended September 30,	
Interest rate swaps	2014	2013	2014	2013
Gain recognized in other comprehensive loss (effective portion)	$ 71	18	146	156

8. Derivative Instrument and Hedging Activity

On January 4, 2007, in connection with a promissory note issued for the acquisition of a building, we entered into a ten-year interest rate swap agreement for the original notional principal amount of $7.7 million whereby we will pay a fixed interest rate of 6.31%, as compared to interest at a floating rate equal to one-month LIBOR plus 125 basis points. The interest rate swap amortization schedule is identical to the promissory note amortization schedule, which has an effective date of January 4, 2007, monthly notional reductions and an expiration date of January 4, 2017.

Our interest rate swap is governed by a master netting arrangement, which is required to be disclosed as a balance sheet offsetting item as follows (in thousands):

	As of September 30, 2014					
				Gross amounts not offset in the balance sheet		
Description	Gross amounts of recognized liabilities	Gross amounts offset in the balance sheet	Net amounts of liabilities presented in the balance sheet	Financial Instruments	Cash collateral received	Net amount
Interest rate swap	$ 456	—	456	456	—	—

	As of December 31, 2013					
				Gross amounts not offset in the balance sheet		
Description	Gross amounts of recognized liabilities	Gross amounts offset in the balance sheet	Net amounts of liabilities presented in the balance sheet	Financial Instruments	Cash collateral received	Net amount
Interest rate swap	$ 602	—	602	602	—	—

9. 12.5% Senior Secured Notes due 2017

On February 7, 2012 we closed our offering of $275 million in aggregate principal amount of 12.5% senior secured notes due 2017 (the “Notes”) at an issue price of 97% of the principal amount. The Notes were offered solely by means of a private placement either to qualified institutional buyers in the United States pursuant to Rule 144A under the Securities Act, or to certain persons outside the United States pursuant to Regulation S under the Securities Act. We used the net proceeds from the offering, together with some cash on hand, to repay and terminate the senior credit facility term loan, and to pay the transaction costs related to the offering.

Interest

The Notes accrue interest at a rate of 12.5% per year. Interest on the Notes is paid semi-annually on each April 15 and October 15, commencing on April 15, 2012. After April 15, 2013, interest will accrue at a rate of 12.5% per annum on (i) the original amount of the Notes plus (ii) any Additional Interest (as defined below) payable but unpaid in any prior interest period, payable in cash on each interest payment date. Further, beginning on the interest payment date occurring on April 15, 2013, additional interest will be payable at a rate of 2.00% per annum (the “Additional Interest”) on (i) the original principal amount of the Notes plus (ii) any amount of Additional Interest payable but unpaid in any prior interest period, to be paid in cash, at our election, (x) on the applicable interest payment date or (y) on the earliest of the maturity date of the Notes, any acceleration of the Notes and any redemption of the Notes; provided that no Additional Interest will be payable on any interest payment date if, for the applicable fiscal period, either (a) we record positive consolidated station operating income for our television segment or (b) our secured leverage ratio on a consolidated basis is less than 4.75 to 1.00.

The Additional Interest applicable fiscal periods are as follows:

(1) Six-months ended December 31, 2012 or as of December 31, 2012
(2) Last twelve months ended June 30, 2013 or as of June 30, 2013
(3) Last twelve months ended December 31, 2013 or as of December 31, 2013
(4) Last twelve months ended June 30, 2014 or as of June 30, 2014

(5) Last twelve months ended December 31, 2014 or as of December 31, 2014
(6) Last twelve months ended June 30, 2015 or as of June 30, 2015
(7) Last twelve months ended December 31, 2015 or as of December 31, 2015
(8) Last twelve months ended June 30, 2016 or as of June 30, 2016
(9) Last twelve months ended December 31, 2016 or as of December 31, 2016

Although for the Additional Interest applicable periods (1), (2), (3) and (4) our secured leverage ratio was greater than 4.75 to 1.00, we recorded positive consolidated station operating income for our television segment for those respective periods (as defined in the Indenture). Therefore, during those respective periods, no Additional Interest was incurred and/or payable. In addition, at September 30, 2014, we have not accrued for any Additional Interest.

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)). 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) currently prevents us from incurring any such additional debt.

The Notes are senior secured obligations of the Company that rank equally with all of our existing and future senior indebtedness and senior to all of our existing and future subordinated indebtedness. Subject to certain exceptions, the Notes are fully and unconditionally guaranteed by each of our existing and future wholly owned domestic subsidiaries (which excludes (i) our existing and future subsidiaries formed in Puerto Rico (the "Puerto Rican Subsidiaries"), (ii) our future subsidiaries formed under the laws of foreign jurisdictions and (iii) our existing and future subsidiaries, whether domestic or foreign, of the Puerto Rican Subsidiaries or foreign subsidiaries) and our other domestic subsidiaries that guarantee certain of our other debt. The Notes and guarantees are structurally subordinated to all existing and future liabilities (including trade payables) of our nonguarantor subsidiaries.

Covenants and Other Matters

The Indenture governing the Notes contains covenants that, among other things, limit our ability and the ability of the guarantors to:

- incur or guarantee additional indebtedness;
- pay dividends and make other restricted payments;
- incur restrictions on the payment of dividends or other distributions from our restricted subsidiaries;
- engage in sale-lease back transactions;
- enter into new lines of business;
- make certain payments to holders of Notes that consent to amendments to the Indenture governing the Notes without paying such amounts to all holders of Notes;
- create or incur certain liens;
- make certain investments and acquisitions;
- transfer or sell assets;
- engage in transactions with affiliates; and
- merge or consolidate with other companies or transfer all or substantially all of our assets.

The Indenture contains certain customary representations and warranties, affirmative covenants and events of default which could, subject to certain conditions, cause the Notes to become immediately due and payable, including, but not limited to, the failure to make premium, principal or interest payments; failure by us to accept and pay for Notes tendered when and as required by the change of control and asset sale provisions of the Indenture; failure to comply with certain covenants in the Indenture; failure to comply with certain agreements in the Indenture for a period of 60 days following notice by the Trustee or the holders of not less than 25% in aggregate principal amount of the Notes then outstanding; failure to pay any debt within any applicable grace period after the final maturity or acceleration of such debt by the holders thereof because of a default, if the total amount of such debt unpaid or accelerated exceeds $15 million; failure to pay final judgments entered by a court or courts of competent jurisdiction aggregating $15 million or more (excluding amounts covered by insurance), which judgments are not paid, discharged or stayed, for a period of 60 days; and certain events of bankruptcy or insolvency.

As of September 30, 2014, and December 31, 2013 we were in compliance with all of our covenants under our Indenture.

10. 10 3/4% Series B Cumulative Exchangeable Redeemable Preferred Stock

Voting Rights Triggering Event

Pursuant to the Certificate of Designations, each holder of shares of our Series B preferred stock had the right, on October 15, 2013, to request that we repurchase (subject to the legal availability of funds and the Delaware General Corporate Law) all or a portion of such holder's shares of Series B preferred stock at a purchase price equal to 100% of the liquidation preference of such shares, plus all accumulated and unpaid dividends (as described in more detail below) on those shares to the date of repurchase.

On October 15, 2013, holders of shares of our Series B preferred stock requested that we repurchase 92,223 shares of Series B preferred stock for an aggregate repurchase price of $126.9 million, which included accumulated and unpaid dividends on these shares as of October 15, 2013. We did not have sufficient funds legally available to repurchase all of the Series B preferred stock for which we received requests and instead used the limited funds legally available to us to repurchase 1,800 shares for a purchase price of approximately $2.5 million, which included accrued and unpaid dividends. Consequently, a "voting rights triggering event" occurred (the "Voting Rights Triggering Event").

Following the occurrence, and during the continuation, of the Voting Rights Triggering Event, holders of the outstanding Series B preferred stock will be entitled to elect two directors to newly created positions on our Board of Directors, and we will be subject to more restrictive operating covenants, including a prohibition on our ability to incur any additional indebtedness and restrictions on our ability to pay dividends or make distributions, redeem or repurchase securities, make investments, enter into transactions with affiliates or merge or consolidate with (or sell substantially all of our assets to) any other person. On June 6, 2014, we held our Annual Meeting of Stockholders ("Annual Meeting"). At the Annual Meeting, the holders of the Series B preferred stock nominated and elected Alan Miller and Gary Stone to serve as Series B preferred stock directors.

The 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. We do not currently have sufficient funds legally available to be able to satisfy the conditions for terminating the Voting Rights Triggering Event. During the continuation of the Voting Rights Triggering Event, the Indenture governing our Notes prohibits us from paying dividends or from repurchasing the Series B preferred stock.

Quarterly Dividends

Under the terms of our Series B preferred stock, the holders of the outstanding shares of the Series B preferred stock are entitled to receive, when, as and if declared by the Board of Directors out of funds of the Company legally available therefor, dividends on the Series B preferred stock at a rate of 10 ¾% per year, of the $1,000 liquidation preference per share. All dividends are cumulative, 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.

On March 29, 2013, the Board of Directors declared a dividend for the dividends due April 15, 2013 to the holders of our Series B preferred stock of record as of April 1, 2013. The dividends of $26.875 per share were paid in cash on April 15, 2013. Additionally, dividends were paid as part of the repurchase of 1,800 shares of Series B preferred stock on October 15, 2013. As of September 30, 2014, the aggregate cumulative unpaid dividends on the outstanding shares of the Series B preferred stock was approximately $43.4 million, which is accrued on our consolidated balance sheet as 10 ¾% Series B cumulative exchangeable redeemable preferred stock.

Redemption Date and Subsequent Accounting Treatment on the Preferred Stock

Prior to October 15, 2013, the Series B preferred stock was considered "conditionally redeemable" because the redemption of the shares of Series B preferred stock was contingent on the Series B preferred stockholders requesting that their Series B preferred stock be repurchased on October 15, 2013. On October 15, 2013, almost all of the holders of the Series B preferred stock requested that we repurchase their shares of Series B preferred stock. As a result of their request, we assessed and determined that, under applicable accounting principles, the contingency had occurred, and the Series B preferred stock now met the definition of a "mandatorily redeemable" instrument under Accounting Standards Codification 480 *"Distinguishing Liabilities from Equity"* ("ASC 480"). Although under Delaware law the Series B preferred stock is deemed equity, under ASC 480, if an instrument changes from being "conditionally redeemable" to "mandatorily redeemable," then the financial instrument should be reclassified as a liability.

In addition, the Series B preferred stock will be measured at each reporting date as the amount of cash that would be paid pursuant to the contract, had settlement occurred on the reporting date, recognizing the resulting change in that amount from the previous reporting date as interest expense. Therefore, the accruing quarterly dividends of the Series B preferred stock will be recorded as interest expense (i.e. "Dividends on Series B preferred stock classified as interest expense").

Item 2. ***Management's Discussion and Analysis of Financial Condition and Results of Operations***

General Overview

We own and/or operate 20 radio stations in markets that reach approximately 40% of the Hispanic population in the United States, including Puerto Rico. In addition, we broadcast via our owned and operated television stations in South Florida and Houston and through programming and/or distribution agreements, including nationally on a subscriber basis, which allow us to serve markets representing over 3.5 million Hispanic households. We operate two reportable segments: radio and television.

Our radio stations are located in six of the eight most populous Hispanic markets in the United States: Los Angeles, New York, Puerto Rico, Chicago, Miami and San Francisco. The Los Angeles and New York markets have the largest and second largest Hispanic populations and are also the largest and second largest radio markets in the United States measured by advertising revenue, respectively. We format the programming of each of our radio stations to capture a substantial share of the Hispanic audience in their respective markets. The U.S. Hispanic population is diverse, consisting of numerous identifiable ethnic groups from many different countries of origin, and each ethnic group has its own musical and cultural heritage. Since the music, culture, customs and Spanish dialects vary from one radio market to another, we strive to maintain familiarity with the musical tastes and preferences of each of the various Hispanic ethnic groups. To accommodate and monetize such diversity, we customize our programming to match the local preferences of our target demographic audience in each market we serve. For the nine-months ended September 30, 2014 and 2013, our radio revenue was generated primarily from the sale of local, national and network advertising, and our radio segment generated 89% and 87% of our consolidated net revenues, respectively.

Our television stations and related affiliates operate under the "MegaTV" brand. 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, 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 50 hours of original programming per week. For the nine-months ended September 30, 2014 and 2013, our television revenue was generated primarily from the sale of local advertising and paid programming and generated 11% and 13% of our consolidated net revenues, respectively.

As part of our operating business, we also own 21 bilingual websites, including www.lamusica.com, Mega.tv and various station websites that provide content related to Latin music, entertainment, news and culture. LaMusica.com and our network of station websites generate revenue primarily from advertising and sponsorship. In addition, the majority of our station websites simultaneously stream our stations' content, which has broadened the audience reach of our radio stations. We also produce live concerts and events in the United States and Puerto Rico. Concerts generate revenue from ticket sales, sponsorship and promotions while raising awareness of our brands in the surrounding communities. These distinct offerings provide additional synergistic opportunities for our advertising partners to reach their targeted audiences.

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 in a station's local market either directly to the advertiser or through an advertiser's agency. Local revenue includes local spot sales, integrated sales, sponsorship sales and paid-programming (or infomercials). For the nine-months ended September 30, 2014 and 2013, local revenue comprised 64% and 61% of our gross revenues, respectively.
- National and network revenue generally consists of advertising airtime sold to agencies purchasing advertising for multiple markets. National sales are generally facilitated by our national representation firm, which serves as our agent in these transactions. For the nine-months ended September 30, 2014 and 2013, national revenue comprised 12% and 16% of our gross revenues, respectively. For the year 2014, network sales consist of advertising airtime sold on our AIRE Radio Networks platform by our network sales staff. For the year 2013, network sales generally consisted of advertising airtime sold to our former network sales partner. For the nine-months ended September 30, 2014 and 2013, network revenue comprised 6% and 3% of our gross revenues, respectively.

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

Our advertising rates are primarily based on the following factors:

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

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

In addition to advertising revenue, we also generate revenue from barter sales, special events revenue, interactive revenue, syndication revenue, subscriber revenue and other revenue. For the nine-months ended September 30, 2014 and 2013, these revenues combined comprised approximately 18% and 20% 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 in order to maximize cash revenue from our available airtime.
- *Special events revenue.* We generate special events revenue from ticket sales and event sponsorships, as well as profit-sharing arrangements by producing or co-producing live concerts and events promoted by our radio and television stations.
- *Interactive revenue.* We derive internet revenue from our websites through the sale of advertiser promotions and advertising on our websites and the sale of advertising airtime during audio streaming of our radio stations over the internet.
- *Syndication revenue.* We receive syndication revenue from licensing various MegaTV content internationally.
- *Subscriber revenue.* We receive subscriber revenue in the form of a per subscriber based fee, which is paid to us by cable and satellite providers.
- *Other revenue.* We receive other ancillary revenue such as rental income from renting available tower space or sub-channels.

Operating Expenses Description and Factors

Our operating expenses consist primarily of (1) engineering and programming expenses, (2) selling, general and administrative expenses 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. Also, 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, 2014 and 2013

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

	Three-Months Ended September 30, 2014	Three-Months Ended September 30, 2013
Net revenue:		
Radio	$ 32,713	35,428
Television	3,565	5,654
Consolidated	$ 36,278	41,082
Engineering and programming expenses:		
Radio	$ 5,508	6,086
Television	2,398	2,355
Consolidated	$ 7,906	8,441
Selling, general and administrative expenses:		
Radio	$ 15,054	15,771
Television	1,881	3,182
Consolidated	$ 16,935	18,953
Corporate expenses:	$ 2,098	2,371
Depreciation and amortization:		
Radio	$ 487	470
Television	684	692
Corporate	101	75
Consolidated	$ 1,272	1,237
(Gain) loss on the disposal of assets, net:		
Radio	$ —	(3)
Television	—	—
Corporate	—	—
Consolidated	$ —	(3)
Impairment charges and restructuring costs:		
Radio	$ —	—
Television	—	—
Corporate	(30)	(136)
Consolidated	$ (30)	(136)
Operating income (loss):		
Radio	$ 11,664	13,104
Television	(1,398)	(575)
Corporate	(2,169)	(2,310)
Consolidated	$ 8,097	10,219

The following summary table presents a comparison of our results of operations for the three-months ended September 30, 2014 and 2013 (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.

	Three-Months Ended September 30,	
	2014	2013
Net revenue	$ 36,278	41,082
Engineering and programming expenses	7,906	8,441
Selling, general and administrative expenses	16,935	18,953
Corporate expenses	2,098	2,371
Depreciation and amortization	1,272	1,237
(Gain) loss on disposal of assets, net of disposal costs	—	(3)
Impairment charges and restructuring costs	(30)	(136)
Operating income	$ 8,097	10,219
Interest expense, net	(9,927)	(9,924)
Dividends on Series B preferred stock classified as interest expense	(2,433)	—
Income tax expense	402	189
Net (loss) income	$ (4,665)	106

Net Revenue

The decrease in our consolidated net revenues of $4.8 million or 12% was due to the decreases in both our radio and television segments' net revenues. Our radio segment net revenues decreased $2.7 million or 8%, due to decreases in national, local and barter sales, which were partially offset by an increase in network sales. Our national sales decrease occurred throughout most of our markets, with the exception of our Puerto Rico market. Our local sales decreased in our Los Angeles, Puerto Rico and Miami markets and the decrease in barter sales occurred throughout most of our markets, with the exception of our Puerto Rico and Chicago markets. Our network sales increase was directly related to our new "AIRE Radio Networks" advertising platform, which we launched on January 1, 2014. Our television segment net revenues decreased $2.1 million or 37%, due to the decreases in special events revenue, paid-programming, and local and national spot sales.

Engineering and Programming Expenses

The decrease in our consolidated engineering and programming expenses of $0.5 million or 6% was due to the decrease in our radio segments' expenses. Our radio segment expenses decreased $0.6 million or 9%, mainly due to a decrease in compensation and benefits, and music license fees.

Selling, General and Administrative Expenses

The decrease in our consolidated selling, general and administrative expenses of $2.0 million or 11% was due to the decreases in both our television and radio segments' expenses. Our television segment expenses decreased $1.3 million or 41%, primarily due to decreases in special events expenses, taxes & licenses, rating services and professional fees, which were offset by an increase in the allowance for doubtful accounts. Our radio segment expenses decreased $0.7 million or 5%, mainly due to decreases in local and national commissions, legal settlements, barter expenses and the allowance for doubtful accounts, which were offset by increases in expenses related to our new AIRE Radio Networks, such as network-affiliate station compensation and employee compensation and benefits.

Corporate Expenses

The decrease in corporate expenses of $0.3 million or 12% was mostly due to a decrease in professional fees.

Operating Income

The decrease in operating income of $2.1million or 21% was mainly due to the decrease in net revenue, which was partially offset by a decrease in operating expenses.

Dividends on Series B preferred stock classified as interest expense

Prior to October 15, 2013, the Series B preferred stock was considered "conditionally redeemable" because the redemption of the shares of Series B preferred stock was contingent on the Series B preferred stockholders requesting that their Series B preferred stock be repurchased on October 15, 2013. On October 15, 2013, almost all of the holders of the Series B preferred stock requested that we repurchase their shares of Series B preferred stock. As a result of their request, we assessed and determined that, under applicable accounting principles, the contingency had occurred, and the Series B preferred stock now met the definition of a "mandatorily redeemable" instrument under Accounting Standards Codification 480 *"Distinguishing Liabilities from Equity"* ("ASC 480"). Although under Delaware law the Series B preferred stock is deemed equity, under ASC 480, if an instrument changes from being "conditionally redeemable" to "mandatorily redeemable," then the financial instrument should be reclassified as a liability.

In addition, the Series B preferred stock will be measured at each reporting date as the amount of cash that would be paid pursuant to the contract, had settlement occurred on the reporting date, recognizing the resulting change in that amount from the previous reporting date as interest expense. Therefore, the accruing quarterly dividends of the Series B preferred stock were and will continue to be recorded as an interest expense.

Income Tax Expense

The increase in income tax expense of $0.2 million was primarily a result of one of our Puerto Rico subsidiaries no longer having a valuation allowance on its deferred tax assets.

Net Loss

The increase in net loss was primarily due to the reclassification of the Series B preferred stock dividends as interest expense and the decrease in operating income.

Comparison Analysis of the Operating Results for the Nine-Months Ended September 30, 2014 and 2013

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

	Nine-Months Ended September 30, 2014	Nine-Months Ended September 30, 2013
Net revenue:		
Radio	$ 98,177	100,634
Television	11,767	15,618
Consolidated	$ 109,944	116,252
Engineering and programming expenses:		
Radio	$ 15,938	15,795
Television	7,054	6,393
Consolidated	$ 22,992	22,188
Selling, general and administrative expenses:		
Radio	$ 46,145	43,810
Television	6,248	9,157
Consolidated	$ 52,393	52,967
Corporate expenses:	$ 7,546	7,413
Depreciation and amortization:		
Radio	$ 1,468	1,462
Television	2,066	2,227
Corporate	272	222
Consolidated	$ 3,806	3,911
(Gain) loss on the disposal of assets, net:		
Radio	$ (1,204)	(12)
Television	—	—
Corporate	—	(13)
Consolidated	$ (1,204)	(25)
Impairment charges and restructuring costs:		
Radio	$ —	86
Television	—	1,000
Corporate	(103)	(197)
Consolidated	$ (103)	889
Operating income (loss):		
Radio	$ 35,830	39,493
Television	(3,601)	(3,159)
Corporate	(7,715)	(7,425)
Consolidated	$ 24,514	28,909

The following summary table presents a comparison of our results of operations for the nine-months ended September 30, 2014 and 2013 (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.

	Nine-Months Ended September 30,	
	2014	2013
Net revenue	$ 109,944	116,252
Engineering and programming expenses	22,992	22,188
Selling, general and administrative expenses	52,393	52,967
Corporate expenses	7,546	7,413
Depreciation and amortization	3,806	3,911
(Gain) loss on disposal of assets, net of disposal costs	(1,204)	(25)
Impairment charges and restructuring costs	(103)	889
Operating income	$ 24,514	28,909
Interest expense, net	(29,797)	(29,794)
Dividends on Series B preferred stock classified as interest expense	(7,300)	—
Income tax expense	1,402	512
Net loss	$ (13,985)	(1,397)

Net Revenue

The decrease in our consolidated net revenues of $6.3 million or 5% was due to the decreases in both our television and radio segments' net revenues. Our television segment net revenues decreased $3.8 million or 25%, due to the decreases in special events revenue, paid-programming and national spot sales. Our radio segment net revenues decreased $2.5 million or 2%, due to the decreases in national sales and special events revenue, which were offset by increases in local and network sales. Our national sales decrease occurred throughout all of our markets, and our special events revenue decreased in our Puerto Rico, Chicago and Miami markets. The increase in local sales occurred throughout most of our markets, with the exception of our Miami and Los Angeles markets. Our network sales increase was directly related to our new "AIRE Radio Networks" advertising platform, which we launched on January 1, 2014.

Engineering and Programming Expenses

The increase in our consolidated engineering and programming expenses of $0.8 million or 4% was due to the increases in both our television and radio segments' expenses. Our television segment expenses increased $0.7 million or 10%, primarily due to an increase in production cost. Our radio segment expenses increased $0.1 million or 1%, mainly due to an increase in music license fees and audience research cost, which were offset by a decrease in compensation and benefits.

Selling, General and Administrative Expenses

The decrease in our consolidated selling, general and administrative expenses of $0.6 million or 1% was due to the decrease in our television segments' expenses. Our television segment expenses decreased $2.9 million or 32%, primarily due to decreases in special events expenses and rating services. Our radio segment expenses increased $2.3 million or 5%, mainly due to increases in expenses related to our new AIRE Radio Networks, such as network-affiliate station compensation and employee compensation and benefits, and special events expenses and professional fees.

Corporate Expenses

The increase in corporate expenses of $0.1 million or 2% was mostly due to an increase in compensation and benefits, primarily related to a retention bonus granted to the CEO per his new employment agreement. This increase was offset by decreases in professional fees and travel & entertainment expenses.

(Gain) loss on the disposal of assets, net

The increase in gain on the disposal of assets, net of $1.2 million was primarily related to the sale of a tower in the Los Angeles area.

Operating Income

The decrease in operating income of $4.4 million or 15% was mainly due to the decrease in net revenues.

Dividends on Series B preferred stock classified as interest expense

Prior to October 15, 2013, the Series B preferred stock was considered “conditionally redeemable” because the redemption of the shares of Series B preferred stock was contingent on the Series B preferred stockholders requesting that their Series B preferred stock be repurchased on October 15, 2013. On October 15, 2013, almost all of the holders of the Series B preferred stock requested that we repurchase their shares of Series B preferred stock. As a result of their request, we assessed and determined that, under applicable accounting principles, the contingency had occurred, and the Series B preferred stock now met the definition of a “mandatorily redeemable” instrument under Accounting Standards Codification 480 *“Distinguishing Liabilities from Equity”* (“ASC 480”). Although under Delaware law the Series B preferred stock is deemed equity, under ASC 480, if an instrument changes from being “conditionally redeemable” to “mandatorily redeemable,” then the financial instrument should be reclassified as a liability.

In addition, the Series B preferred stock will be measured at each reporting date as the amount of cash that would be paid pursuant to the contract, had settlement occurred on the reporting date, recognizing the resulting change in that amount from the previous reporting date as interest expense. Therefore, the accruing quarterly dividends of the Series B preferred stock were and will continue to be recorded as an interest expense.

Income Tax Expense

The increase in income tax expense of $0.9 million was primarily a result of one of our Puerto Rico subsidiaries no longer having a valuation allowance on its deferred tax assets.

Net Loss

The increase in net loss was primarily due to the reclassification of the Series B preferred stock dividends as interest expense and the decrease in operating income.

Liquidity and Capital Resources

On October 15, 2013, as a result of a failure by us to repurchase all of the shares of Series B preferred stock that were requested to be repurchased by the holders thereof, a Voting Rights Triggering Event occurred. Following the occurrence, and during the continuation, of the Voting Rights Triggering Event, we are subject to more restrictive operating covenants, including a prohibition on our ability to incur any additional indebtedness and restrictions on our ability to pay dividends or make distributions, redeem or repurchase securities, make investments, enter into transactions with affiliates or merge or consolidate with (or sell substantially all of our assets to) any other person. The 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. We do not currently have sufficient funds legally available to be able to satisfy the conditions for terminating the Voting Rights Triggering Event.

Our consolidated financial statements have been prepared on a going-concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. As of September 30, 2014, we had a working capital deficit due to the reclassification of our Series B preferred stock as a current liability, although under Delaware law, our state of incorporation, the Series B preferred stock is deemed equity. Because the holders of the Series B preferred stock are not creditors, they do not have rights of, or remedies available to, creditors. Delaware law does not recognize a right of preferred stockholders to force redemptions or repurchases where the corporation does not have funds legally available. Currently, we do not have sufficient funds legally available to be able to repurchase the Series B preferred stock and its accumulated unpaid dividends and management does not expect to be required to make any such repurchases during the next twelve months. Management does not believe that the Series B preferred stockholders have legal remedies that would require such repurchases.

Our primary sources of liquidity are our current cash and cash equivalents and the cash expected to be provided by operations. We do not currently have a revolving credit facility or other working capital lines of credit. Our cash flows from operations are subject to factors impacting our customers and target audience, such as overall advertising demand, shifts in population, station listenership and viewership, demographics, audience tastes and fluctuations in preferred advertising media. Our ability to raise funds by increasing our indebtedness is currently precluded by the occurrence and continuation of the Voting Rights Triggering Event. The occurrence and continuation of the Voting Rights Triggering Event, our Certificate of Designations and the Indenture governing the Notes place other restrictions on us with respect to the sale of assets, liens, investments, dividends, debt repayments, transactions with affiliates, and consolidations and mergers, among other things.

Our strategy is to primarily utilize cash flows from operations to meet our capital needs and contractual obligations. Management continually projects anticipated cash requirements and believes that cash from operating activities, together with cash on hand, should be sufficient to permit us to meet our operating obligations over the next twelve-month period, including, among other things, required semi-annual interest payments pursuant to the Notes, and capital expenditures.

Assumptions (none of which can be assured) which underlie management's beliefs, include the following:

- the demand for advertising within the broadcasting industry and economic conditions in general will not deteriorate in any material respect;
- despite the consequences resulting from the occurrence of the Voting Rights Triggering Event, we will continue to successfully implement our business strategy;
- we will not use cash flows from operating activities to repurchase the Series B preferred stock; and
- we will not incur any material unforeseen liabilities, including but not limited to taxes, environmental liabilities, regulatory matters or legal judgments.

We evaluate strategic media acquisitions and/or dispositions and strive to expand our media content through distribution, programming and affiliation agreements in order to achieve a significant presence with clusters of stations in the top U.S. Hispanic markets. We engage in discussions regarding potential acquisitions and/or dispositions and expansion of our content through media outlets from time to time in the ordinary course of business. We anticipate that any future acquisitions would be financed through funds generated from equity financing, operations, asset sales or a combination of these or other available and/or permitted sources. As a result of the consequences resulting from the occurrence of the Voting Rights Triggering Event, we are currently not able to finance acquisitions through the incurrence of additional debt and are subject to additional restrictions which may preclude us from being able to execute this strategy.

12.5% senior secured notes due 2017

On February 7, 2012 we closed our offering of $275 million in aggregate principal amount of 12.5% senior secured notes due 2017 (the "Notes") at an issue price of 97% of the principal amount. The Notes were offered solely by means of a private placement either to qualified institutional buyers in the United States pursuant to Rule 144A under the Securities Act, or to certain persons outside the United States pursuant to Regulation S under the Securities Act. We used the net proceeds from the offering, together with some cash on hand, to repay and terminate the senior credit facility term loan, and to pay the transaction costs related to the offering.

Interest

The Notes accrue interest at a rate of 12.5% per year. Interest on the Notes is paid semi-annually on each April 15 and October 15, commencing on April 15, 2012. After April 15, 2013, interest will accrue at a rate of 12.5% per annum on (i) the original amount of the Notes plus (ii) any Additional Interest (as defined below) payable but unpaid in any prior interest period, payable in cash on each interest payment date. Further, beginning on the interest payment date occurring on April 15, 2013, additional interest will be payable at a rate of 2.00% per annum (the "Additional Interest") on (i) the original principal amount of the Notes plus (ii) any amount of Additional Interest payable but unpaid in any prior interest period, to be paid in cash, at our election, (x) on the applicable interest payment date or (y) on the earliest of the maturity date of the Notes, any acceleration of the Notes and any redemption of the Notes; provided that no Additional Interest will be payable on any interest payment date if, for the applicable fiscal period, either (a) we record positive consolidated station operating income for our television segment or (b) our secured leverage ratio on a consolidated basis is less than 4.75 to 1.00.

The Additional Interest applicable fiscal periods are as follows:

(1) Six-months ended December 31, 2012 or as of December 31, 2012
(2) Last twelve months ended June 30, 2013 or as of June 30, 2013
(3) Last twelve months ended December 31, 2013 or as of December 31, 2013
(4) Last twelve months ended June 30, 2014 or as of June 30, 2014
(5) Last twelve months ended December 31, 2014 or as of December 31, 2014
(6) Last twelve months ended June 30, 2015 or as of June 30, 2015
(7) Last twelve months ended December 31, 2015 or as of December 31, 2015
(8) Last twelve months ended June 30, 2016 or as of June 30, 2016
(9) Last twelve months ended December 31, 2016 or as of December 31, 2016

Although for the Additional Interest applicable periods (1), (2), (3) and (4) our secured leverage ratio was greater than 4.75 to 1.00, we recorded positive consolidated station operating income for our television segment for those respective periods (as defined in the Indenture). Therefore, during those respective periods, no Additional Interest was incurred and/or payable. In addition, at September 30, 2014, we have not accrued for any Additional Interest.

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)). 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 to the unaudited condensed consolidated financial statements) currently prevents us from incurring any such additional debt.

The Notes are senior secured obligations of the Company that rank equally with all of our existing and future senior indebtedness and senior to all of our existing and future subordinated indebtedness. Subject to certain exceptions, the Notes are fully and unconditionally guaranteed by each of our existing and future wholly owned domestic subsidiaries (which excludes (i) our existing and future subsidiaries formed in Puerto Rico (the "Puerto Rican Subsidiaries"), (ii) our future subsidiaries formed under the laws of foreign jurisdictions and (iii) our existing and future subsidiaries, whether domestic or foreign, of the Puerto Rican Subsidiaries or foreign subsidiaries) and our other domestic subsidiaries that guarantee certain of our other debt. The Notes and guarantees are structurally subordinated to all existing and future liabilities (including trade payables) of our nonguarantor subsidiaries.

Covenants and Other Matters

The Indenture governing the Notes contains covenants that, among other things, limit our ability and the ability of the guarantors to:

- incur or guarantee additional indebtedness;
- pay dividends and make other restricted payments;
- incur restrictions on the payment of dividends or other distributions from our restricted subsidiaries;
- engage in sale-lease back transactions;
- enter into new lines of business;
- make certain payments to holders of Notes that consent to amendments to the Indenture governing the Notes without paying such amounts to all holders of Notes;
- create or incur certain liens;
- make certain investments and acquisitions;
- transfer or sell assets;
- engage in transactions with affiliates; and
- merge or consolidate with other companies or transfer all or substantially all of our assets.

The Indenture contains certain customary representations and warranties, affirmative covenants and events of default which could, subject to certain conditions, cause the Notes to become immediately due and payable, including, but not limited to, the failure to make premium, principal or interest payments; failure by us to accept and pay for Notes tendered when and as required by the change of control and asset sale provisions of the Indenture; failure to comply with certain covenants in the Indenture; failure to comply with certain agreements in the Indenture for a period of 60 days following notice by the Trustee or the holders of not less than 25% in aggregate principal amount of the Notes then outstanding; failure to pay any debt within any applicable grace period after the final maturity or acceleration of such debt by the holders thereof because of a default, if the total amount of such debt unpaid or accelerated exceeds $15 million; failure to pay final judgments entered by a court or courts of competent jurisdiction aggregating $15 million or more (excluding amounts covered by insurance), which judgments are not paid, discharged or stayed, for a period of 60 days; and certain events of bankruptcy or insolvency.

As of September 30, 2014, we were in compliance with all of our covenants under our Indenture.

Summary of Capital Resources

The following summary table presents a comparison of our capital resources for the nine-months ended September 30, 2014 and 2013, with respect to certain key measures affecting our liquidity (in thousands). 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 notes.

	Nine-Months Ended September 30,		Change
	2014	2013	$
Capital expenditures:			
Radio	$ 1,167	808	359
Television	356	320	36
Corporate	345	341	4
Consolidated	$ 1,868	1,469	399
Net cash flows provided by operating activities	$ 10,721	13,916	(3,195)
Net cash flows used in investing activities	(598)	(1,433)	835
Net cash flows used in financing activities	(2,919)	(5,406)	2,487
Net increase in cash and cash equivalents	$ 7,204	7,077	

Capital Expenditures

The increase in our capital expenditures was primarily due to various radio and corporate system upgrades, a new radio transmitter and tower & antenna, and building improvements made to our SBS Miami Broadcast Center.

Net Cash Flows Provided by Operating Activities

Changes in our net cash flows from operating activities were primarily a result of cash payments paid to vendors, mainly for accounts payable and accrued expenses and a decrease in net revenue.

Net Cash Flows Used in Investing Activities

Changes in our net cash flows from investing activities were a result of the increase in our capital expenditures, which was offset by the cash proceeds received from the sale of a tower in the Los Angeles area.

Net Cash Flows Used in Financing Activities

Changes in our net cash flows from financing activities were a result of the absence of the Series B preferred cash dividend paid in the prior year.

Recent Developments

NASDAQ Listing

On May 16, 2014, we received approval from The Nasdaq Stock Market (“NASDAQ”) to transfer the listing of our Class A common stock from The NASDAQ Capital Market to The NASDAQ Global Market. The NASDAQ Global Market is one of the three markets for NASDAQ-listed stocks and operates similarly to The NASDAQ Capital Market. Companies listed on The NASDAQ Global Market must meet certain financial requirements and adhere to NASDAQ’s corporate governance standards. Our Class A common stock began trading on The NASDAQ Global Market at the opening of business on May 20, 2014 and continues to trade under the symbol “SBSA.”

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future material effect on our financial condition, changes in financial condition, revenue or expenses, results of operations, liquidity, capital expenditures or capital resources.

Recently Issued Accounting Pronouncements

In August 2014, the FASB issued ASU No. 2014-15, *Presentation of Financial Statements- Going Concern.* This new standard defines management's responsibility to evaluate whether there is substantial doubt about an organization's ability to continue as a going concern and to provide related footnote disclosures. The standard is effective for annual reporting periods ending after December 15, 2016 and interim periods thereafter. We are currently evaluating the impact, if any, that this new standard will have on our financial position and results of operations.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers.* This new standard provides guidance for the recognition, measurement and disclosure of revenue resulting from contracts with customers and will supersede virtually all of the current revenue recognition guidance under U.S. GAAP. The standard is effective for the first interim period within annual reporting periods beginning after December 15, 2016. We are currently evaluating the impact of this new standard on our financial position and results of operations.

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.

Our critical accounting policies are described in Item 7 of our annual report on Form 10-K for the year ended December 31, 2013. There have been no material changes to our critical accounting policies during the nine-months ended September 30, 2014.

Item 3. ***Quantitative and Qualitative Disclosures about Market Risk***

We are a "smaller reporting company" as defined by Regulation S-K and as such, we are not required to provide the information contained in this item pursuant to Regulation S-K.

Item 4. ***Controls and Procedures***

Evaluation Of Disclosure Controls And Procedures. Our management, including our principal executive and financial officers, have conducted an evaluation of the effectiveness of the design and operation of our "disclosure controls and procedures," as such term is defined under Rules 13a-15(e) and 15d-15(e) of the Exchange Act, to ensure that information we are required to disclose in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and include controls and procedures designed to ensure that information we are required to disclose in such reports is accumulated and communicated to management, including our principal executive and financial officers, as appropriate, to allow timely decisions regarding required disclosure. Based on that evaluation, our principal executive and financial officers concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report.

Changes In Internal Control Over Financial Reporting. There has been no change in our internal control over financial reporting during the quarter ended September 30, 2014 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II—OTHER INFORMATION

Item 1. ***Legal Proceedings***

Litigation-Lehman and T. Rowe Price Complaint

On February 14, 2013, Lehman Brothers Holdings Inc. ("LBHI") brought a claim against us in the Delaware Court of Chancery (the "Court") seeking, among other things, a declaratory judgment that as a result of non-payment of dividends, a Voting Rights Triggering Event had occurred pursuant to the certificate of designations for the Series B preferred stock (the "Certificate of Designations") no later than July 15, 2010. LBHI alleged that as a result, we were prohibited from incurring indebtedness but did so for the purposes of purchasing assets relating to our Houston television station and the issuance of our 12.5% Senior Secured Notes due 2017 (the "Notes"). LBHI also sought an award of unspecified contract damages.

We filed a motion to dismiss the LBHI complaint on March 11, 2013. On April 25, 2013, LBHI filed an opposition to our motion to dismiss and a motion for partial summary judgment. We filed a reply in further support of our motion to dismiss and in opposition to LBHI's motion for partial summary judgment on May 10, 2013. A hearing on the parties' motions was held on May 20, 2013, at which the Court requested further briefing on cross-motions for summary judgment.

Additionally, on June 17, 2013, T. Rowe Price High Yield Fund, Inc., T. Rowe Price Institutional High Yield Fund, T. Rowe Price Funds SICAV-Global High Yield Bond Fund and T. Rowe Price Small-Cap Value Fund, Inc. (collectively "T. Rowe Price" and with LBHI, the "Plaintiffs") brought a claim against us making allegations substantially similar to those made by LBHI previously, except with an additional claim for breach of the implied covenant of good faith and fair dealing.

On July 3, 2013, the Court granted the Plaintiffs' motion to consolidate their lawsuits; and on October 3, 2013, LBHI moved to amend its original complaint by adding a claim for breach of the implied covenant of good faith and fair dealing. We moved for judgment on the pleadings as to both T. Rowe Price's and LBHI's good faith and fair dealing claims. In addition, we and the Plaintiffs submitted cross-motions for summary judgment on October 31, 2013.

On February 25, 2014, Vice Chancellor Glasscock rendered the opinion of the Court granting our motions for summary judgment and judgment on the pleadings, and denying the Plaintiffs' motion for summary judgment. Accordingly, the Plaintiffs' claims were dismissed. On April 8, 2014, LBHI filed a Notice of Appeal to the Delaware Supreme Court. T. Rowe Price did not file a Notice of Appeal, and the appeal deadline has now passed. We filed a Notice of Cross-Appeal on April 23, 2014. LBHI's Opening Brief on appeal was filed on May 27, 2014, and our Answering Brief on appeal and Opening Brief on cross-appeal was filed on June 26, 2014. LBHI's Reply Brief on appeal and Answering Brief on cross-appeal was filed on July 28, 2014, and our Reply Brief on cross-appeal was filed on August 7, 2014. A hearing on the appeal and cross-appeal is scheduled for December 10, 2014.

Brevan Howard and Others Complaint

On December 27, 2013, River Birch Master Fund, L.P., P River Birch Ltd. (together, "River Birch") and Visium Catalyst Credit Master Fund, Ltd. (collectively with River Birch, "Initial Plaintiffs") brought a claim against us in the Court seeking a declaratory judgment that a Voting Rights Triggering Event had occurred (as of April 15, 2010) under our Certificate of Designations as a result of our non-payment of dividends. The claim states that as a result of such Voting Rights Triggering Event, the incurrence of indebtedness for the purpose of purchasing our Houston television station and the issuance of our Notes under the Indenture governing the Notes were prohibited incurrences of indebtedness under the Certificate of Designations.

The Initial Plaintiffs further claim that we violated the Certificate of Designations by failing to take any actions or explore any options that would have given us legally available funds with which to repurchase the outstanding Series B preferred stock on October 15, 2013. In connection with their claims, Initial Plaintiffs also seek an award of contract damages. On January 17, 2014, we filed a motion to dismiss the complaint. On March 3, 2014, the complaint was amended to remove River Birch and add Brevan Howard Credit Catalyst Master Fund Ltd., Brevan Howard Master Fund, ALJ Capital I, LP, ALJ Capital II, LP, LJR Capital, LP, and Cedarview Opportunities Master Fund, LP as additional plaintiffs. Plaintiffs filed an answering brief to our Motion to Dismiss on April 30, 2014. Our reply brief was filed on May 16, 2014, and a hearing was held on our Motion to Dismiss on June 10, 2014. Following the hearing, the parties agreed to stay all proceedings relating to Count I (which seeks a declaration that a VRTE was in effect at all times after April 15, 2010), Count II (which alleges that SBS breached the Certificate of Designations by incurring indebtedness in 2011 and 2012) and Count IV (which alleges that SBS breached the implied covenant of good faith and fair dealing by deferring certain dividends) of the complaint. On June 27, 2014, the Court denied our motion to dismiss Count III (which alleges that SBS breached the Certificate of Designations by failing to redeem all of the Series B Preferred Stock on October 15, 2013) of the complaint. We deny the allegations contained in the complaint and, to the contrary, assert that we have been and continue to be in full and complete compliance with all of our obligations under the Certificate of Designations, as fully disclosed in our public filings dating back to 2009. Accordingly, we believe that the complaint's allegations are frivolous and wholly without merit and intend to contest such allegations vigorously.

Item 6. ***Exhibits***

The following exhibits, which are numbered in accordance with Item 601 of Regulation S-K, are filed herewith or, as noted, furnished herewith or incorporated by reference herein:

Exhibit Number	Exhibit Description
31.1*	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1**	Certification of Periodic Financial Report by Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2**	Certification of Periodic Financial Report by Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document

*	Filed herewith
**	Furnished herewith

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SPANISH BROADCASTING SYSTEM, INC.

By: /s/ JOSEPH A. GARCÍA
JOSEPH A. GARCÍA

Chief Financial Officer,
Chief Administrative Officer, Senior
Executive Vice President and Secretary
(principal financial and accounting officer
and duly authorized officer of the registrant)

Date: November 14, 2014

EXHIBIT INDEX

Exhibit Number	Exhibit Description
31.1*	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1**	Certification of Periodic Financial Report by Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2**	Certification of Periodic Financial Report by Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document

* Filed herewith
** Furnished herewith

Exhibit 31.1

CERTIFICATION

I, Raúl Alarcón, Jr., certify that:

1. I have reviewed this quarterly report on Form 10-Q of Spanish Broadcasting System, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal controls over financial reporting, or caused such internal control over financial reporting to be designed under our supervision to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting;

5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of registrant’s board of directors (or persons performing the equivalent function):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

By:	/s/ RAÚL ALARCÓN, JR.
Name:	Raúl Alarcón, Jr.
Title:	Chairman of the Board of Directors, Chief Executive Officer and President

Date: November 14, 2014

Exhibit 31.2

CERTIFICATION

I, Joseph A. García, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Spanish Broadcasting System, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal controls over financial reporting, or caused such internal control over financial reporting to be designed under our supervision to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting;

5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of registrant’s board of directors (or persons performing the equivalent function):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

By:	/s/ JOSEPH A. GARCÍA
Name:	Joseph A. García
Title:	Chief Financial Officer, Chief Administrative Officer, Senior Executive Vice President and Secretary

Date: November 14, 2014

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q of Spanish Broadcasting System, Inc. (the “Company”) for the quarterly period ended September 30, 2014, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Raúl Alarcón, Jr., Chairman of the Board of Directors, President and Chief Executive Officer of the Company, certify, as of the dates hereof, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company at the dates and for the periods indicated.

/s/ RAÚL ALARCÓN, JR.

Name: Raúl Alarcón, Jr.
Title: Chairman of the Board of Directors,
President and Chief Executive Officer

Date: November 14, 2014

Exhibit 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q of Spanish Broadcasting System, Inc. (the “Company”) for the quarterly period ended September 30, 2014, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Joseph A. García, Chief Financial Officer, Executive Vice President and Secretary of the Company, certify, as of the dates hereof, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company at the dates and for the periods indicated.

/s/ JOSEPH A. GARCÍA

Name: Joseph A. García

Title: Chief Financial Officer, Chief Administrative Officer, Senior Executive Vice President and Secretary

Date: November 14, 2014