# 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, 2015**

**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, 2015, 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.**

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**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, 2014, 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, 2015 | December 31, 2014 |
|---|---|---|
| Current assets: | | |
| Cash and cash equivalents | $ 28,292 | $ 23,991 |
| Receivables: | | |
| Trade | 30,867 | 27,506 |
| Barter | 226 | 205 |
| | 31,093 | 27,711 |
| Less allowance for doubtful accounts | 1,179 | 2,322 |
| Net receivables | 29,914 | 25,389 |
| Prepaid expenses and other current assets | 6,084 | 3,928 |
| Total current assets | 64,290 | 53,308 |
| Property and equipment, net of accumulated depreciation of $72,349 in 2015 and $69,632 in 2014 | 30,190 | 32,382 |
| FCC broadcasting licenses | 322,131 | 323,055 |
| Goodwill | 32,806 | 32,806 |
| Other intangible assets, net of accumulated amortization of $996 in 2015 and $924 in 2014 | 1,552 | 1,624 |
| Deferred financing costs, net of accumulated amortization of $12,235 in 2015 and $9,706 in 2014 | 5,381 | 7,910 |
| Other assets | 585 | 728 |
| Total assets | $ 456,935 | $ 451,813 |
| **Liabilities and Stockholders' Deficit** | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses | $ 17,558 | $ 16,495 |
| Accrued interest | 15,790 | 7,202 |
| Unearned revenue | 322 | 449 |
| Other liabilities | 93 | 269 |
| Current portion of other long-term debt | 312 | 336 |
| 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, 2015 and December 31, 2014 and $53,131 and $45,831 of dividends payable as of September 30, 2015 and December 31, 2014, respectively. | 143,680 | 136,380 |
| Total current liabilities | 177,755 | 161,131 |
| Other liabilities, less current portion | 86 | 94 |
| Derivative instruments | 283 | 408 |
| 12.5% senior secured notes due 2017, net of unamortized discount of $3,064 in 2015 and $4,343 in 2014 | 271,936 | 270,657 |
| Other long-term debt, less current portion | 4,692 | 4,922 |
| Deferred income taxes | 96,151 | 88,806 |
| Total liabilities | 550,903 | 526,018 |
| 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, 2015 and December 31, 2014, 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, 2015 and December 31, 2014, respectively | — | — |
| Class B common stock, $0.0001 par value. Authorized 50,000,000 shares; 2,340,353 shares issued and outstanding at September 30, 2015 and December 31, 2014, respectively | — | — |
| Additional paid-in capital | 525,339 | 525,335 |
| Accumulated other comprehensive loss, net | (283) | (408) |
| Accumulated deficit | (619,028) | (599,136) |
| Total stockholders' deficit | (93,968) | (74,205) |
| Total liabilities and stockholders' deficit | $ 456,935 | $ 451,813 |

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
(In thousands, except per share data)

| | Three-Months Ended September 30, | | Nine-Months Ended September 30, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| Net revenue | $ 36,381 | 36,278 | $ 106,623 | 109,944 |
| Operating expenses: | | | | |
| Engineering and programming | 7,493 | 7,906 | 23,097 | 22,992 |
| Selling, general and administrative | 15,315 | 16,935 | 46,918 | 52,393 |
| Corporate expenses | 2,870 | 2,098 | 7,442 | 7,546 |
| Depreciation and amortization | 1,152 | 1,272 | 3,622 | 3,806 |
| Total operating expenses | 26,830 | 28,211 | 81,079 | 86,737 |
| (Gain) loss on the disposal of assets | 1 | — | (77) | (1,204) |
| Impairment charges and restructuring costs | 735 | (30) | 598 | (103) |
| Operating income | 8,815 | 8,097 | 25,023 | 24,514 |
| Other (expense) income: | | | | |
| Interest expense, net | (9,951) | (9,927) | (29,879) | (29,797) |
| Dividends on Series B preferred stock classified as interest expense | (2,433) | (2,433) | (7,300) | (7,300) |
| Loss before income taxes | (3,569) | (4,263) | (12,156) | (12,583) |
| Income tax expense | 4,123 | 402 | 7,736 | 1,402 |
| Net loss | $ (7,692) | (4,665) | $ (19,892) | (13,985) |
| | | | | |
| Basic and Diluted net loss per common share | $ (1.06) | (0.64) | $ (2.74) | (1.92) |
| Weighted average common shares outstanding: | | | | |
| Basic and Diluted | 7,267 | 7,267 | 7,267 | 7,267 |
| | | | | |
| Net loss | $ (7,692) | (4,665) | $ (19,892) | (13,985) |
| Other comprehensive income, net of taxes- unrealized gain on derivative instrument | 44 | 71 | 125 | 146 |
| Total comprehensive loss | $ (7,648) | (4,594) | $ (19,767) | (13,839) |

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, 2015
(In thousands, except share data)

| | Series C convertible preferred stock | | Class A common stock | | Class B common stock | | Additional paid-in capital | Accumulated other comprehensive loss, net | Accumulated deficit | Total stockholders' deficit |
|---|---|---|---|---|---|---|---|---|---|---|
| | Number of shares | Par value | Number of shares | Par value | Number of shares | Par value | | | | |
| Balance at December 31, 2014 | 380,000 | $ 4 | 4,166,991 | $ — | 2,340,353 | $ — | $ 525,335 | $ (408) | $ (599,136) | $ (74,205) |
| Net loss | — | — | — | — | — | — | — | — | (19,892) | (19,892) |
| Stock-based compensation | — | — | — | — | — | — | 4 | — | — | 4 |
| Unrealized gain on derivative instrument | — | — | — | — | — | — | — | 125 | — | 125 |
| Balance at September 30, 2015 | 380,000 | $ 4 | 4,166,991 | $ — | 2,340,353 | $ — | $ 525,339 | $ (283) | $ (619,028) | $ (93,968) |

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, | |
|---|---|---|
| | **2015** | **2014** |
| Cash flows from operating activities: | | |
| Net loss | $ (19,892) | $ (13,985) |
| Adjustments to reconcile net loss to net cash provided by operating activities: | | |
| Dividends on Series B preferred stock classified as interest expense | 7,300 | 7,300 |
| (Gain) loss on the disposal of assets | (77) | (1,204) |
| Impairment and restructuring charges | 598 | (103) |
| Stock-based compensation | 4 | 1 |
| Depreciation and amortization | 3,622 | 3,806 |
| Net barter (income) loss | (228) | (125) |
| Provision for trade doubtful accounts | (701) | 261 |
| Amortization of deferred financing costs | 2,529 | 2,514 |
| Amortization of original issued discount | 1,279 | 1,120 |
| Deferred income taxes | 7,345 | 872 |
| Unearned revenue-barter | 80 | 151 |
| Changes in operating assets and liabilities: | | |
| Trade receivables | (4,165) | 2,688 |
| Prepaid expenses and other current assets | (1,794) | (658) |
| Other assets | 143 | 449 |
| Accounts payable and accrued expenses | 1,087 | (708) |
| Accrued interest | 8,588 | 8,527 |
| Other liabilities | 142 | (185) |
| Net cash provided by operating activities | 5,860 | 10,721 |
| Cash flows from investing activities: | | |
| Purchases of property and equipment | (1,384) | (1,868) |
| Proceeds from the sale of property and equipment | 79 | 1,270 |
| Net cash used in investing activities | (1,305) | (598) |
| Cash flows from financing activities: | | |
| Payments of other long-term debt | (254) | (2,919) |
| Net cash used in financing activities | (254) | (2,919) |
| Net increase in cash and cash equivalents | 4,301 | 7,204 |
| Cash and cash equivalents at beginning of period | 23,991 | 23,566 |
| Cash and cash equivalents at end of period | $ 28,292 | $ 30,770 |
| Supplemental cash flows information: | | |
| Interest paid | $ 17,505 | $ 17,615 |
| Income tax paid | $ 321 | $ 358 |
| Noncash investing and financing activities: | | |
| Unrealized gain on derivative instruments | $ 125 | $ 146 |

See accompanying 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, 2015 and December 31, 2014 and for the three- and nine-month periods ended September 30, 2015 and 2014 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, 2014, included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2014. In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments, which are all of a normal and recurring nature, necessary for a fair presentation of the results of the interim periods. Additionally, we evaluated subsequent events after the balance sheet date of September 30, 2015 through the financial statements issuance date. The results of operations for the nine-months ended September 30, 2015 are not necessarily indicative of the results for the entire year ending December 31, 2015, or for any other future interim or annual periods.

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, 2015, 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 11). 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.

### *Recently Issued Accounting Pronouncements*

In April 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2015-03, *Simplifying the Presentation of Debt Issuance Costs.* ASU No. 2015-03 requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts, and not recorded as separate assets. This update is effective for reporting periods beginning after December 15, 2015, and is to be applied on a retrospective basis. Upon adoption of the guidance, the Company will present debt issuance costs as a deduction from the long-term debt in the balance sheet. Debt issuance costs totaled $5.3 million as of September 30, 2015.

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. In July 2015, the FASB postponed the effective date of this standard. The standard is now effective for the first interim period within annual reporting periods beginning after December 15, 2017. 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) 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. As of September 30, 2015, we had 138,000 stock options outstanding and 113,000 stock options exercisable.

***(d) Accumulated Other Comprehensive Loss***

Our accumulated other comprehensive loss 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 consists of our net loss and a gain 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, 2015 and 2014, we reclassified from other comprehensive loss to interest expense $0.1 million. During the three-months ended September 30, 2015 and 2014, we recognized in other comprehensive income, net of taxes- an unrealized gain on derivative instrument of approximately $44 thousand and $71 thousand, respectively.

For the nine-months ended September 30, 2015 and 2014, we reclassified from other comprehensive loss to interest expense $0.2 million. During the nine-months ended September 30, 2015 and 2014, we recognized in other comprehensive income, net of taxes- an unrealized gain on derivative instrument of approximately $125 thousand and $146 thousand, 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, 2015 and 2014 (in thousands):

| | Three-Months Ended September 30, | | Nine-Months Ended September 30, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| 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 | 111 | 98 | 106 | 100 |

**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, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| **Net revenue:** | | | | |
| Radio | $ 33,476 | 32,713 | $ 97,195 | 98,177 |
| Television | 2,905 | 3,565 | 9,428 | 11,767 |
| Consolidated | $ 36,381 | 36,278 | $ 106,623 | 109,944 |
| **Engineering and programming expenses:** | | | | |
| Radio | $ 5,551 | 5,508 | $ 17,113 | 15,938 |
| Television | 1,942 | 2,398 | 5,984 | 7,054 |
| Consolidated | $ 7,493 | 7,906 | $ 23,097 | 22,992 |
| **Selling, general and administrative expenses:** | | | | |
| Radio | $ 13,583 | 15,054 | $ 42,716 | 46,145 |
| Television | 1,732 | 1,881 | 4,202 | 6,248 |
| Consolidated | $ 15,315 | 16,935 | $ 46,918 | 52,393 |
| **Corporate expenses:** | $ 2,870 | 2,098 | $ 7,442 | 7,546 |
| **Depreciation and amortization:** | | | | |
| Radio | $ 432 | 487 | $ 1,363 | 1,468 |
| Television | 630 | 684 | 1,977 | 2,066 |
| Corporate | 90 | 101 | 282 | 272 |
| Consolidated | $ 1,152 | 1,272 | $ 3,622 | 3,806 |
| **(Gain) loss on the disposal of assets, net:** | | | | |
| Radio | $ — | — | $ (68) | (1,204) |
| Television | 1 | — | 2 | — |
| Corporate | — | — | (11) | — |
| Consolidated | $ 1 | — | $ (77) | (1,204) |
| **Impairment charges and restructuring costs:** | | | | |
| Radio | $ 925 | — | $ 925 | — |
| Television | — | — | — | — |
| Corporate | (190) | (30) | (327) | (103) |
| Consolidated | $ 735 | (30) | $ 598 | (103) |
| **Operating income (loss):** | | | | |
| Radio | $ 12,985 | 11,664 | $ 35,146 | 35,830 |
| Television | (1,400) | (1,398) | (2,737) | (3,601) |
| Corporate | (2,770) | (2,169) | (7,386) | (7,715) |
| Consolidated | $ 8,815 | 8,097 | $ 25,023 | 24,514 |
| **Capital expenditures:** | | | | |
| Radio | $ 248 | 385 | $ 698 | 1,167 |
| Television | 295 | 131 | 477 | 356 |
| Corporate | 117 | 155 | 209 | 345 |
| Consolidated | $ 660 | 671 | $ 1,384 | 1,868 |

| | September 30, 2015 | December 31, 2014 |
|---|---|---|
| **Total Assets:** | | |
| Radio | $ 397,296 | $ 389,394 |
| Television | 51,290 | 51,876 |
| Corporate | 8,349 | 10,543 |
| Consolidated | $ 456,935 | $ 451,813 |

**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. In assessing the realizability of the deferred tax assets, management considers whether it is more likely than not that some portion or the entire deferred tax assets will not be realized. The ultimate realization of the deferred tax assets is dependant upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax assets, projected future taxable income, and tax planning strategies in making this assessment. Due to an unexpected operating loss reported in Q3 2015, management decided to revise its projections used to determine the realizability of the deferred tax asset on the net operating loss carryforward (NOL DTA). Based upon the projections for future net operating losses over the periods in which the NOL DTAs are expected to be realizable, management believes it is more likely than not that SBS of Puerto Rico, Inc. will not realize such deferred tax assets at September 30, 2015. Accordingly, an increase in the valuation allowance of $2.1 million was recorded in Q3 2015.

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. The valuation allowance at the beginning of the year was adjusted as a result of a change in expected realization of the deferred tax assets on the NOL DTA for SBS of Puerto Rico, Inc. of approximately $5.3 million.

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 2012 through 2014. The tax years that remain subject to assessment of additional liabilities by state, local, and Puerto Rico tax authorities are 2011 through 2014.

From time to time, we have been and are subject to certain legal proceedings and claims that have arisen in the ordinary course of business, including an audit by a State tax authority (the "State") for the income tax years from December 31, 2007 through 2009, which was settled and closed during Q2 2015. The State audit did not result in a significant impact, as our tax positions were substantially sustained. The State audit resulted in an additional tax liability of approximately $0.1 million, plus interest, related to capital taxes and not based on income. We do not anticipate the result of this audit to impact subsequent open tax years with the State, and thus have not set up a reserve.

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, 2015 and December 31, 2014.

**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- 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 Delaware Court of Chancery (the "Court") seeking a declaratory judgment that a Voting Rights Triggering Event had occurred (as of April 15, 2010) under the certificate of designations for our Series B preferred stock (the "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 12.5% Senior Secured Notes due 2017 (the "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 Voting Rights

Triggering Event 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. The stay has since been lifted. 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. A hearing on our motion to dismiss Counts I, II and IV of the complaint was held on February 10, 2015, and on May 19, 2015, the Court granted our motion to dismiss Counts I, II and IV 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. Impairment of FCC Broadcasting Licenses**

We generally perform our annual impairment test of our indefinite-lived intangibles during the fourth quarter of the fiscal year but, given the recent projection of slightly reduced anticipated long-term growth rates for total radio revenues, we performed an interim impairment test as of September 30, 2015.

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

In the discounted cash flow projections, a period of ten years was determined to be an appropriate time horizon for the analysis. The yearly streams of cash flows are adjusted to present value using an after-tax discount rate calculated for the broadcast industry as of December 31 of each year. Additionally, it is necessary to project the terminal value at the end of the ten-year projection period. The terminal value represents the hypothetical value of the licenses at the end of a ten-year period. An estimated amount of taxes are deducted from the assumed terminal value, which accordingly is discounted to net present value.

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

The methodology used by us in determining our key estimates and assumptions was applied consistently to each market. Below are some of the key assumptions used in our impairment assessment using significant unobservable inputs (Level 3 non-reoccurring fair value measure).

| | **September 30, 2015** |
|---|---|
| Discount Rate | 10.0% |
| Long-term Revenue Growth Rate | 0.5% - 1.5% |
| Mature Market Share | 2.7% - 23.1% |
| Mature Operating Profit Margin | 29.0 – 34.7% |

As a result of the interim impairment test, we determined that there was an impairment of one of our FCC broadcasting licenses primarily due to lower industry advertising revenue growth projections in the subject market. We recorded a non-cash impairment loss of approximately $0.9 million that reduced the carrying value of our San Francisco market FCC broadcasting license. The tax impact of the impairment loss was an approximate $0.4 million tax benefit, which was related to the reduction of the book/tax basis difference on our FCC broadcasting license.

## 8. 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):

| | | September 30, 2015 | | December 31, 2014 | |
|---|---|---|---|---|---|
| Description | Fair Value Hierarchy | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| 12.5% senior secured notes due 2017 | Level 2 | $ 275.0 | 283.8 | $ 275.0 | 286.5 |
| 10 3/4% Series B cumulative exchangeable redeemable preferred stock | Level 3 | 143.7 | 58.8 | 136.4 | 61.8 |
| Promissory note payable, included in other long-term debt | Level 3 | 5.0 | 4.1 | 5.2 | 4.5 |

### *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, 2015 | | |
|---|---|---|---|---|
| | | Liabilities | | |
| Description | September 30, 2015 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 | $ 283 | — | 283 | — |

| | | Fair value measurements at December 31, 2014 | | |
|---|---|---|---|---|
| | | Liabilities | | |
| Description | December 31, 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 | $ 408 | — | 408 | — |

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, 2015 and 2014, respectively.

| | Three-Months Ended September 30, | | Nine-Months Ended September 30, | |
|---|---|---|---|---|
| **Interest rate swaps** | **2015** | **2014** | **2015** | **2014** |
| Gain recognized in other comprehensive loss (effective portion) | $ 44 | 71 | 125 | 146 |

## 9. 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 agreed to 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, 2015 | | | | | |
|---|---|---|---|---|---|---|
| | | | | 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 | $ 283 | — | 283 | 283 | — | — |

| | As of December 31, 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 | $ 408 | — | 408 | 408 | — | — |

## 10. 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 cash on hand, to repay and terminate the previous senior credit facility, 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 (the "Interest Payment Date"), 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 measurement periods that determine if Additional Interest is applicable for the respective Interest Payment Dates are as follows:

(1) Six-months ended December 31, 2012 or as of December 31, 2012 for the Interest Payment Date of April 15, 2013
(2) Last twelve months ended June 30, 2013 or as of June 30, 2013 for the Interest Payment Date of October 15, 2013
(3) Last twelve months ended December 31, 2013 or as of December 31, 2013 for the Interest Payment Date of April 15, 2014
(4) Last twelve months ended June 30, 2014 or as of June 30, 2014 for the Interest Payment Date of October 15, 2014
(5) Last twelve months ended December 31, 2014 or as of December 31, 2014 for the Interest Payment Date of April 15, 2015
(6) Last twelve months ended June 30, 2015 or as of June 30, 2015 for the Interest Payment Date of October 15, 2015
(7) Last twelve months ended December 31, 2015 or as of December 31, 2015 for the Interest Payment Date of April 15, 2016
(8) Last twelve months ended June 30, 2016 or as of June 30, 2016 for the Interest Payment Date of October 15, 2016
(9) Last twelve months ended December 31, 2016 or as of December 31, 2016 for the Interest Payment Date of April 15, 2017

Additional Interest during any given interest period, shall not be deemed to "accrue". Rather, Additional Interest becomes payable on a given Interest Payment Date (April 15 or October 15) unless the condition in either clause (a) or (b) above has been met as of that Interest Payment Date or unless the Television Segment has been divested or the Notes redeemed prior to that Interest Payment Date.

Although for the Additional Interest applicable periods (1), (2), (3), (4), (5) and (6) 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, no Additional Interest was incurred and/or payable for those respective Interest Payment Dates.

***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 11) 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, 2015, we were in compliance with all of our covenants under our Indenture.

**11. 10 ¾% 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 are 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 4, 2015, we held our Annual Meeting of Stockholders ("Annual Meeting"). Alan Miller and Gary Stone, the two directors elected by the holders of the Series B preferred stock at the 2014 annual meeting were not subject to election at this year's Annual Meeting and continue to serve as 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. As of September 30, 2015, the aggregate cumulative unpaid dividends on the outstanding shares of the Series B preferred stock was approximately $53.1 million, which is accrued on our condensed consolidated balance sheet as 10 ¾% Series B cumulative exchangeable redeemable preferred stock.

***Redemption Date and Subsequent Accounting Treatment of 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").

**12. Exchange of Stations in Puerto Rico**

Since September of last year, we have been operating three full power television stations, WTCV-DT, Channel 32, WVEO-DT, Channel 17, and WVOZ-DT, Channel 47, in Puerto Rico (the "Television Stations") pursuant to a programming agreement with International Broadcast Corp. That entity has the right to operate three of our radio stations WIOA-FM, WZET-FM and WIOC-FM in Puerto Rico (the "Radio Stations") pursuant to a separate programming agreement, although we have continued operating one of those three stations, WZET-FM. In connection with those agreements, International Broadcast Corp. granted us an option to swap our Radio Stations plus $1.9 million for the Television Stations, subject to obtaining approval from the Federal Communications Commission ("FCC"). We exercised the option earlier this year and expect to receive FCC approval and be able to close this transaction, which will qualify as a like-kind exchange under Section 1031 of the Internal Revenue Code, before the end of the year. The closing of this transaction will afford us the flexibility of participating in the upcoming FCC television spectrum auction with all three of the acquired licenses and capture the potential excess value of those licenses that is expected to be created by the auction process. There can be no assurance that the FCC auction will be successfully completed or that any expected excess value will be subsequently realized.

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

***General Overview***

We are a leading Spanish-language media and entertainment company with radio and television operations, together with live concerts and events, mobile, digital and interactive media platforms, which reach the growing U.S. Hispanic population, including Puerto Rico. We produce and distribute original Spanish-language content, including radio programs, television shows, music and live entertainment through our multi-media platforms. We operate in two reportable segments: radio and television.

We own and operate radio stations located in 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. In addition to our owned and operated radio stations, we have our AIRE Radio Network with over 103 affiliate radio stations serving over 35 of the top U.S. Hispanic markets, including 19 of the top 20 Hispanic markets. AIRE Radio Network currently covers 88% of the coveted U.S. Hispanic market. Our AIRE Radio Network reaches over 13.5 million listeners in an average week with our targeted networks. For the nine-months ended September 30, 2015 and 2014, our radio revenue was generated primarily from the sale of local, national and network advertising, and our radio segment generated 91% and 89% of our consolidated net revenue, respectively.

Our television stations and related affiliates operate under the "MegaTV" brand. We broadcast via our owned and operated television stations in South Florida and 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 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, 2015 and 2014, our television revenue was generated primarily from the sale of local advertising and paid programming and generated 9% and 11% of our consolidated net revenues, respectively.

As part of our operating business, we also maintain multiple bilingual websites, including www.lamusica.com, Mega.tv and various station websites that provide content related to Latin music, entertainment, news and culture, as well as the LaMusica mobile app. LaMusica and our network of station websites generate revenue primarily from advertising and sponsorship. In addition, LaMusica simultaneously streams 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, 2015 and 2014, local revenue comprised 62% and 64% of our gross revenues, respectively.
- National and network revenue generally consists of advertising airtime sold to agencies purchasing advertising for multiple markets. National sales are generally facilitated by our outside national representation firm, which serves as our

agent in these transactions. For the nine-months ended September 30, 2015 and 2014, national revenue comprised 14% and 12% of our gross revenues, respectively. Network sales consist of advertising airtime sold on our AIRE Radio Network platform by our network sales staff. For the nine-months ended September 30, 2015 and 2014, network revenue comprised 9% and 6% 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, including Puerto Rico. 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, 2015 and 2014, these revenues combined comprised approximately 15% and 18% 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.
- *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. 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, 2015 and 2014**

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

| | Three-Months Ended September 30, | |
|---|---|---|
| | 2015 | 2014 |
| **Net revenue:** | | |
| Radio | $ 33,476 | 32,713 |
| Television | 2,905 | 3,565 |
| Consolidated | $ 36,381 | 36,278 |
| **Engineering and programming expenses:** | | |
| Radio | $ 5,551 | 5,508 |
| Television | 1,942 | 2,398 |
| Consolidated | $ 7,493 | 7,906 |
| **Selling, general and administrative expenses:** | | |
| Radio | $ 13,583 | 15,054 |
| Television | 1,732 | 1,881 |
| Consolidated | $ 15,315 | 16,935 |
| **Corporate expenses:** | $ 2,870 | 2,098 |
| **Depreciation and amortization:** | | |
| Radio | $ 432 | 487 |
| Television | 630 | 684 |
| Corporate | 90 | 101 |
| Consolidated | $ 1,152 | 1,272 |
| **(Gain) loss on the disposal of assets, net:** | | |
| Radio | $ — | — |
| Television | 1 | — |
| Corporate | — | — |
| Consolidated | $ 1 | — |
| **Impairment charges and restructuring costs:** | | |
| Radio | $ 925 | — |
| Television | — | — |
| Corporate | (190) | (30) |
| Consolidated | $ 735 | (30) |
| **Operating income (loss):** | | |
| Radio | $ 12,985 | 11,664 |
| Television | (1,400) | (1,398) |
| Corporate | (2,770) | (2,169) |
| Consolidated | $ 8,815 | 8,097 |

The following summary table presents a comparison of our results of operations for the three-months ended September 30, 2015 and 2014 (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, | |
|---|---|---|
| | 2015 | 2014 |
| Net revenue | $ 36,381 | 36,278 |
| Engineering and programming expenses | 7,493 | 7,906 |
| Selling, general and administrative expenses | 15,315 | 16,935 |
| Corporate expenses | 2,870 | 2,098 |
| Depreciation and amortization | 1,152 | 1,272 |
| (Gain) loss on disposal of assets, net of disposal costs | 1 | — |
| Impairment charges and restructuring costs | 735 | (30) |
| Operating income | $ 8,815 | 8,097 |
| Interest expense, net | (9,951) | (9,927) |
| Dividends on Series B preferred stock classified as interest expense | (2,433) | (2,433) |
| Income tax expense | 4,123 | 402 |
| Net loss | $ (7,692) | (4,665) |

***Net Revenue***

The increase in our consolidated net revenues of $0.1 million was due to an increase in our radio segments' net revenue which was partially offset by a decrease in our television segment's net revenues. Our radio segment net revenues increased by $0.8 million or 2%, due to increases in national, network, internet, and barter sales, which were partially offset by a decrease in special events revenue. Our national sales increased in our New York, Chicago, Los Angeles and San Francisco markets. Our special events revenue decreased in our New York, San Francisco, and Puerto Rico markets due to a decrease in scheduled events. Our network sales increase was directly related to our "AIRE Radio Network" advertising platform, which we launched in the beginning of 2014. Our television segment net revenues decreased $0.7 million or 19%, due to the decreases in paid-programming, local and barter sales, and special events revenue.

***Engineering and Programming Expenses***

The decrease in our consolidated engineering and programming expenses of $0.4 million or 5% was primarily due to the decrease in our television segments' expenses. This decrease in our television segment expenses of $0.4 million or 19% related to a reduction in originally produced programming cost.

***Selling, General and Administrative Expenses***

The decrease in our consolidated selling, general and administrative expenses of $1.6 million or 10% was due to the decreases in both our television and radio segments' expenses. Our radio segment expenses decreased $1.5 million or 10%, mainly due to decreases in special events expenses, professional fees, and barter expenses, which were offset by an increase in commissions, advertising and promotions, and AIRE expenses, such as affiliate station compensation and promotional events. Our television segment expenses decreased $0.1 million or 8%, primarily due to decreases in special events expenses, and the allowance for doubtful accounts.

***Corporate Expenses***

The increase in corporate expenses of $0.8 million or 37% was mostly due to an increase in professional fees, building facility expenses, and directors & officers insurance premiums.

***Impairment Charges and Restructuring Costs***

The increase in impairment charges and restructuring costs of $0.8 million was primarily due to an impairment of our San Francisco market FCC broadcasting license.

***Operating Income***

The increase in operating income of $0.7 million or 9% was mainly due to the decrease in operating expenses which was offset by the impairment of our FCC broadcasting license.

***Income Tax Expense***

The increase in income tax expense of $3.7 million was primarily a result of the tax amortization on some of our indefinite-lived intangible assets that do not have any valuation allowances and recording a valuation allowance on a deferred tax asset related to one of our Puerto Rico subsidiaries that was not previously fully valued.

***Net Loss***

The increase in net loss was primarily due to the increase in income tax expense, which was offset by the increase in operating income.

**Comparison Analysis of the Operating Results for the Nine-Months Ended September 30, 2015 and 2014**

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

| | Nine-Months Ended September 30, | |
|---|---|---|
| | **2015** | **2014** |
| **Net revenue:** | | |
| Radio | $ 97,195 | 98,177 |
| Television | 9,428 | 11,767 |
| Consolidated | $ 106,623 | 109,944 |
| **Engineering and programming expenses:** | | |
| Radio | $ 17,113 | 15,938 |
| Television | 5,984 | 7,054 |
| Consolidated | $ 23,097 | 22,992 |
| **Selling, general and administrative expenses:** | | |
| Radio | $ 42,716 | 46,145 |
| Television | 4,202 | 6,248 |
| Consolidated | $ 46,918 | 52,393 |
| **Corporate expenses:** | $ 7,442 | 7,546 |
| **Depreciation and amortization:** | | |
| Radio | $ 1,363 | 1,468 |
| Television | 1,977 | 2,066 |
| Corporate | 282 | 272 |
| Consolidated | $ 3,622 | 3,806 |
| **(Gain) loss on the disposal of assets, net:** | | |
| Radio | $ (68) | (1,204) |
| Television | 2 | — |
| Corporate | (11) | — |
| Consolidated | $ (77) | (1,204) |
| **Impairment charges and restructuring costs:** | | |
| Radio | $ 925 | — |
| Television | — | — |
| Corporate | (327) | (103) |
| Consolidated | $ 598 | (103) |
| **Operating income (loss):** | | |
| Radio | $ 35,146 | 35,830 |
| Television | (2,737) | (3,601) |
| Corporate | (7,386) | (7,715) |
| Consolidated | $ 25,023 | 24,514 |

The following summary table presents a comparison of our results of operations for the nine-months ended September 30, 2015 and 2014 (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, | |
|---|---|---|
| | 2015 | 2014 |
| Net revenue | $ 106,623 | 109,944 |
| Engineering and programming expenses | 23,097 | 22,992 |
| Selling, general and administrative expenses | 46,918 | 52,393 |
| Corporate expenses | 7,442 | 7,546 |
| Depreciation and amortization | 3,622 | 3,806 |
| (Gain) loss on disposal of assets, net of disposal costs | (77) | (1,204) |
| Impairment charges and restructuring costs | 598 | (103) |
| Operating income | $ 25,023 | 24,514 |
| Interest expense, net | (29,879) | (29,797) |
| Dividends on Series B preferred stock classified as interest expense | (7,300) | (7,300) |
| Income tax expense | 7,736 | 1,402 |
| Net loss | $ (19,892) | (13,985) |

***Net Revenue***

The decrease in our consolidated net revenues of $3.3 million or 3% was due to the decreases in both our radio and television segments' net revenues. Our radio segment net revenues decreased $1.0 million or 1%, due to decreases in local and barter sales, and special events revenue, which were partially offset by an increase in network, national, and internet sales. Our local sales decreased in our Los Angeles, Puerto Rico and San Francisco markets and the decrease in barter sales occurred throughout all of our markets. Our national sales increased in our Chicago, New York, and San Francisco markets. Our special events revenue decreased in our New York, Miami, Los Angeles and San Francisco markets due to a decrease in scheduled events. Our network sales increase was directly related to our "AIRE Radio Network" advertising platform, which we launched in the beginning of 2014. Our television segment net revenues decreased $2.3 million or 20%, due to the decreases in paid-programming, local sales and barter sales, and special events revenue.

***Engineering and Programming Expenses***

The increase in our consolidated engineering and programming expenses of $0.1 million was primarily due to the increase in our radio segments' expenses. Our radio segment expenses increased $1.2 million or 7%, mainly due to an increase in programming personnel's compensation and benefits. This increase was offset by a decrease in our television segment expenses of $1.1 million or 15% related to a reduction in originally produced programming cost.

***Selling, General and Administrative Expenses***

The decrease in our consolidated selling, general and administrative expenses of $5.5 million or 10% was due to the decreases in both our television and radio segments' expenses. Our radio segment expenses decreased $3.4 million or 7%, mainly due to decreases in special events expenses, barter expenses and professional fees, which were offset by an increase in AIRE expenses, such as affiliate station compensation and promotional events. Our television segment expenses decreased $2.1 million or 33%, primarily due to decreases in special events expenses, the allowance for doubtful accounts, professional fees and barter expenses.

***Corporate Expenses***

The decrease in corporate expenses of $0.1 million or 1% was mostly due to a decrease in compensation and benefits caused by the prior year retention bonus that was granted to our CEO per his new employment contract. This decrease was offset by increases in professional fees, building facility expenses, and directors & officers insurance premiums.

***Impairment Charges and Restructuring Costs***

The increase in impairment charges and restructuring costs of $0.7 million was primarily due to an impairment of our San Francisco market FCC broadcasting license.

***Operating Income***

The increase in operating income of $0.5 million or 2% was mainly due to the decrease in operating expenses, which were offset by the decrease of revenues, the impairment of our FCC broadcasting license, and the prior period recognition of gains on the disposal of assets.

***Income Tax Expense***

The increase in income tax expense of $6.3 million was primarily a result of the tax amortization on some of our indefinite-lived intangible assets that do not have any valuation allowances and recording a valuation allowance on a deferred tax asset related to one of our Puerto Rico subsidiaries that was not previously fully valued.

***Net Loss***

The increase in net loss was primarily due to the increase in income tax expense.

**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, 2015, 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 (the "Interest Payment Date"), 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 measurement periods that determine if Additional Interest is applicable for the respective Interest Payment Dates are as follows:

(1) Six-months ended December 31, 2012 or as of December 31, 2012 for the Interest Payment Date of April 15, 2013
(2) Last twelve months ended June 30, 2013 or as of June 30, 2013 for the Interest Payment Date of October 15, 2013
(3) Last twelve months ended December 31, 2013 or as of December 31, 2013 for the Interest Payment Date of April 15, 2014
(4) Last twelve months ended June 30, 2014 or as of June 30, 2014 for the Interest Payment Date of October 15, 2014
(5) Last twelve months ended December 31, 2014 or as of December 31, 2014 for the Interest Payment Date of April 15, 2015
(6) Last twelve months ended June 30, 2015 or as of June 30, 2015 for the Interest Payment Date of October 15, 2015
(7) Last twelve months ended December 31, 2015 or as of December 31, 2015 for the Interest Payment Date of April 15, 2016
(8) Last twelve months ended June 30, 2016 or as of June 30, 2016 for the Interest Payment Date of October 15, 2016
(9) Last twelve months ended December 31, 2016 or as of December 31, 2016 for the Interest Payment Date of April 15, 2017

Additional Interest during any given interest period, shall not be deemed to "accrue". Rather, Additional Interest becomes payable on a given Interest Payment Date (April 15 or October 15) unless the condition in either clause (a) or (b) above has been met as of that Interest Payment Date or unless the Television Segment has been divested or the Notes redeemed prior to that Interest Payment Date.

Although for the Additional Interest applicable periods (1), (2), (3), (4), (5) and (6) 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, no Additional Interest was incurred and/or payable for those respective Interest Payment Dates.

***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 11 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, 2015, 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, 2015 and 2014, 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 |
|---|---|---|---|
| | 2015 | 2014 | $ |
| Capital expenditures: | | | |
| Radio | $ 698 | 1,167 | (469) |
| Television | 477 | 356 | 121 |
| Corporate | 209 | 345 | (136) |
| Consolidated | $ 1,384 | $ 1,868 | (484) |
| | | | |
| Net cash flows provided by operating activities | $ 5,860 | 10,721 | (4,861) |
| Net cash flows used in investing activities | (1,305) | (598) | (707) |
| Net cash flows used in financing activities | (254) | (2,919) | 2,665 |
| Net (decrease) increase in cash and cash equivalents | $ 4,301 | 7,204 | |

***Capital Expenditures***

The decrease in our capital expenditures was primarily due to the completion of various radio system and server infrastructure upgrades in 2014.

***Net Cash Flows (Used In) Provided by Operating Activities***

Changes in our net cash flows from operating activities were primarily a result of a decrease in cash receipts from our trade receivables and an increase of cash payments for prepaid expenses and other current assets.

***Net Cash Flows (Used in) Provided by Investing Activities***

Changes in our net cash used in investing activities were a result of the decrease in cash proceeds received from the sale of property and equipment, offset by the decrease in capital expenditures.

***Net Cash Flows (Used in) Provided by Financing Activities***

Changes in our net cash used in from financing activities were a result of our having made the final payment in August 2014 on a promissory note related to the acquisition of our Houston television station.

**Recent Developments**

***Exchange of Stations in Puerto Rico***

Since September of last year, we have been operating three full power television stations, WTCV-DT, Channel 32, WVEO-DT, Channel 17, and WVOZ-DT, Channel 47, in Puerto Rico (the "Television Stations") pursuant to a programming agreement with International Broadcast Corp. That entity has the right to operate three of our radio stations WIOA-FM, WZET-FM and WIOC-FM in Puerto Rico (the "Radio Stations") pursuant to a separate programming agreement, although we have continued operating one of those three stations, WZET-FM. In connection with those agreements, International Broadcast Corp. granted us an option to swap our Radio Stations plus $1.9 million for the Television Stations, subject to obtaining approval from the Federal Communications Commission ("FCC"). We exercised the option earlier this year and expect to receive FCC approval and be able to close this transaction, which will qualify as a like-kind exchange under Section 1031 of the Internal Revenue Code, before the end of the year. The closing of this transaction will afford us the flexibility of participating in the upcoming FCC television spectrum auction with all three of the acquired licenses and capture the potential excess value of those licenses that is expected to be created by the auction process. There can be no assurance that the FCC auction will be successfully completed or that any expected excess value will be subsequently realized.

***NASDAQ Listing***

On December 19, 2014, we received a written notice from The Nasdaq Stock Market ("NASDAQ"), advising us that the market value of our Class A common stock for the previous 30 consecutive business days had fallen below the $15,000,000 minimum market value of publicly held shares ("MVPHS"), required for continued listing on the NASDAQ Global Market pursuant to NASDAQ Listing Rule 5450(b)(2)(C) (the "Rule"). As of March 17, 2015, we had regained compliance with the Rule.

**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 April 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2015-03, *Simplifying the Presentation of Debt Issuance Costs.* ASU No. 2015-03 requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts, and not recorded as separate assets. This update is effective for reporting periods beginning after December 15, 2015, and is to be applied on a retrospective basis. Upon adoption of the guidance, the Company will present debt issuance costs as a deduction from the long-term debt in the balance sheet. Debt issuance costs totaled $5.3 million as of September 30, 2015.

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. In July 2015, the FASB postponed the effective date of this standard. The standard is now effective for the first interim period within annual reporting periods beginning after December 15, 2017. We are currently evaluating the impact, if any, that this new standard will have 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, 2014. There have been no material changes to our critical accounting policies during the nine-months ended September 30, 2015.

**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, as a result of the material weakness in internal control over financial reporting discussed below, that our disclosure controls and procedures were not effective as of the end of the period covered by this report. However, we believe that the financial statements included in this report fairly present in all material respects our financial condition, results of operations and cash flows for the periods presented.

In November 2015, management concluded that a control deficiency with respect to the precision of the review of the calculation of the provision for income taxes constituted a material weakness in internal control over financial reporting.

Management is in the process of reviewing and, as necessary, revising its policies and procedures with respect to controls over the review and verification of the accuracy of the calculation of the provision for income taxes to ensure that all reasonable steps will be taken to correct this material weakness. As part of this process, management expects to enhance the precision of existing controls. The deficiency will not be considered remediated until internal controls are operational for a period of time and tested, and management concludes that the controls are operating effectively.

*Changes In Internal Control Over Financial Reporting.* Except for the material weakness described above, there has been no change in our internal control over financial reporting during the quarter ended September 30, 2015 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- 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 Delaware Court of Chancery (the "Court") seeking a declaratory judgment that a Voting Rights Triggering Event had occurred (as of April 15, 2010) under the certificate of designations for our Series B preferred stock (the "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 12.5% Senior Secured Notes due 2017 (the "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 Voting Rights Triggering Event 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. The stay has since been lifted. 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. A hearing on our motion to dismiss Counts I, II and IV of the complaint was held on February 10, 2015, and on May 19, 2015, the Court granted our motion to dismiss Counts I, II and IV 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 16, 2015

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