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 March 31, 2014

OR

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

For the transition period from ________ to ________

Commission file number 000-27823

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

Delaware **(State or other jurisdiction of incorporation or organization)**	**13-3827791** **(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 May 14, 2014, 4,166,991 shares of Class A common stock, par value $0.0001 per share, 2,340,353 shares of Class B common stock, par value $0.0001 per share and 380,000 shares of Series C convertible preferred stock, $0.01 par value per share, which are convertible into 760,000 shares of Class A common stock, were outstanding.

SPANISH BROADCASTING SYSTEM, INC.

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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, 2013, and those described from time to time in our future reports filed with the Securities and Exchange Commission (the “SEC”).

PART I. FINANCIAL INFORMATION

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

SPANISH BROADCASTING SYSTEM, INC. AND SUBSIDIARIES

Condensed Consolidated Balance Sheets
(In thousands, except share data)

Assets	March 31, 2014 (Unaudited)	December 31, 2013
Current assets:		
Cash and cash equivalents	$ 34,181	$ 23,566
Receivables:		
Trade	25,789	31,665
Barter	411	460
	26,200	32,125
Less allowance for doubtful accounts	2,028	2,204
Net receivables	24,172	29,921
Prepaid expenses and other current assets	3,915	2,778
Total current assets	62,268	56,265
Property and equipment, net of accumulated depreciation of $66,451 in 2014 and $65,550 in 2013	34,701	35,420
FCC broadcasting licenses	323,055	323,055
Goodwill	32,806	32,806
Other intangible assets, net of accumulated amortization of $852 in 2014 and $828 in 2013	1,696	1,720
Deferred financing costs, net of accumulated amortization of $7,189 in 2014 and $6,352 in 2013	10,427	11,264
Other assets	1,131	1,218
Total assets	$ 466,084	$ 461,748
Liabilities and Stockholders' Deficit		
Current liabilities:		
Accounts payable and accrued expenses	$ 18,763	$ 19,593
Accrued interest	15,905	7,271
Unearned revenue	364	512
Other liabilities	451	497
Current portion of other long-term debt	3,004	3,004
10 3/4% Series B cumulative exchangeable redeemable preferred stock outstanding and dividends outstanding, $0.01 par value, liquidation value $1,000 per share. Authorized 280,000 shares: 90,549 shares issued and outstanding at March 31, 2014 and December 31, 2013 and $38,530 and $36,097 of dividends payable as of March 31, 2014 and December 31, 2013, respectively.	129,079	126,646
Total current liabilities	167,566	157,523
Other liabilities, less current portion	468	504
Derivative instruments	563	602
12.5% senior secured notes due 2017, net of unamortized discount of $5,501 in 2014 and $5,862 in 2013	269,499	269,138
Other long-term debt, less current portion	5,173	5,258
Deferred income taxes	83,291	83,172
Total liabilities	526,560	516,197
Commitments and contingencies (note 6)		
Stockholders' deficit:		
Series C convertible preferred stock, $0.01 par value and liquidation value. Authorized 600,000 shares; 380,000 shares issued and outstanding at March 31, 2014 and December 31, 2013, respectively	4	4
Class A common stock, $0.0001 par value. Authorized 100,000,000 shares; 4,166,991 shares issued and outstanding at March 31, 2014 and December 31, 2013, respectively	—	—
Class B common stock, $0.0001 par value. Authorized 50,000,000 shares; 2,340,353 shares issued and outstanding at March 31, 2014 and December 31, 2013, respectively	—	—
Additional paid-in capital	525,355	525,334
Accumulated other comprehensive loss, net	(563)	(602)
Accumulated deficit	(585,272)	(579,185)
Total stockholders' deficit	(60,476)	(54,449)
Total liabilities and stockholders' deficit	$ 466,084	$ 461,748

See accompanying notes to the unaudited condensed consolidated financial statements.

SPANISH BROADCASTING SYSTEM, INC. AND SUBSIDIARIES

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

	Three Months Ended March 31, 2014	Three Months Ended March 31, 2013
Net revenue	$ 32,779	$ 39,103
Operating expenses:		
Engineering and programming	7,512	7,503
Selling, general and administrative	15,754	19,510
Corporate expenses	1,704	2,430
Depreciation and amortization	1,275	1,358
Total operating expenses	26,245	30,801
Loss (gain) on the disposal of assets	46	(13)
Impairment charges and restructuring costs	—	1,000
Operating income	6,488	7,315
Other (expense) income:		
Interest expense, net	(9,928)	(9,931)
Dividends on Series B preferred stock classified as interest expense	(2,433)	—
Loss before income taxes	(5,873)	(2,616)
Income tax expense	214	137
Net loss	(6,087)	(2,753)
Dividends on Series B preferred stock	—	(2,482)
Net loss available to common stockholders	$ (6,087)	$ (5,235)
Basic and Diluted net loss per common share	$ (0.84)	$ (0.72)
Weighted average common shares outstanding:		
Basic and Diluted	7,267	7,267
Net loss	$ (6,087)	$ (2,753)
Other comprehensive loss, net of taxes- unrealized gain on derivative instrument	39	49
Total comprehensive loss	$ (6,048)	$ (2,704)

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 Three Months Ended March 31, 2014
(In thousands, except share data)

	Series C convertible preferred stock		Class A common stock		Class B common stock		Additional	Accumulated other		Total
	Number of shares	Par value	Number of shares	Par value	Number of shares	Par value	paid-in capital	comprehensive loss, net	Accumulated deficit	stockholders' deficit
Balance at December 31, 2013	380,000	$ 4	4,166,991	$ —	2,340,353	$ —	$ 525,334	$ (602)	$ (579,185)	$ (54,449)
Stock-based compensation	—	—	—	—	—	—	21	—	—	21
Net loss	—	—	—	—	—	—	—	—	(6,087)	(6,087)
Unrealized gain on derivative instrument	—	—	—	—	—	—	—	39	—	39
Balance at March 31, 2014	380,000	$ 4	4,166,991	$ —	2,340,353	$ —	$ 525,355	$ (563)	$ (585,272)	$ (60,476)

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)

	Three Months Ended March 31, 2014	Three Months Ended March 31, 2013
Cash flows from operating activities:		
Net loss	$ (6,087)	$ (2,753)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Dividends on Series B preferred stock classified as interest expense	2,433	—
Loss (gain) on the disposal of assets	46	(13)
Impairment charges and restructuring costs	—	1,000
Stock-based compensation	21	10
Depreciation and amortization	1,275	1,358
Net barter (income) loss	(174)	(103)
Provision for trade doubtful accounts	(93)	150
Amortization of deferred financing costs	837	833
Amortization of original issued discount	361	317
Deferred income taxes	119	104
Unearned revenue-barter	75	(18)
Changes in operating assets and liabilities:		
Trade receivables	5,793	2,476
Prepaid expenses and other current assets	(1,137)	(1,023)
Other assets	87	(11)
Accounts payable and accrued expenses	(817)	89
Accrued interest	8,634	8,674
Other liabilities	(82)	(86)
Net cash provided by operating activities	11,291	11,004
Cash flows from investing activities:		
Purchases of property and equipment	(611)	(217)
Proceeds from the sale of property and equipment	20	23
Net cash used in investing activities	(591)	(194)
Cash flows from financing activities:		
Payments of other long-term debt	(85)	(78)
Net cash used in financing activities	(85)	(78)
Net increase in cash and cash equivalents	10,615	10,732
Cash and cash equivalents at beginning of period	23,566	26,660
Cash and cash equivalents at end of period	$ 34,181	$ 37,392
Supplemental cash flows information:		
Interest paid	$ 89	$ 98
Income tax paid, net	$ —	$ —
Noncash investing and financing activities:		
Unrealized gain on derivative instruments	$ 39	$ 49
Accrual of Series B preferred stock dividends not declared	$ —	$ (2,482)

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 March 31, 2014 and December 31, 2013 and for the three-month periods ended March 31, 2014 and 2013 have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial information and with the instructions to Form 10-Q and Article 8-03 of Regulation S-X. They do not include all information and notes required by U.S. GAAP for complete financial statements. These unaudited condensed consolidated financial statements should be read in conjunction with our consolidated financial statements as of, and for the fiscal year ended December 31, 2013, included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2013. In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments, which are all of a normal and recurring nature, necessary for a fair presentation of the results of the interim periods. Additionally, we evaluated subsequent events after the balance sheet date of March 31, 2014 through the financial statements issuance date. The results of operations for the three-months ended March 31, 2014 are not necessarily indicative of the results for a full year.

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions about future events that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities at the date of the financial statements. Significant items subject to such estimates and assumptions include the allowance for doubtful accounts, the realization of deferred tax assets, the useful lives and future cash flows used for testing the recoverability of property and equipment, the recoverability of FCC broadcasting licenses, goodwill and other intangible assets, the fair value of Level 2 and Level 3 financial instruments, contingencies and litigation. These estimates and assumptions are based on management's best judgments. Management evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors, including the current economic environment, which management believes to be reasonable under the circumstances. Management adjusts such estimates and assumptions as facts and circumstances dictate. Illiquid credit markets, volatile equity markets and changes in advertising spending levels have combined to increase the uncertainty inherent in such estimates and assumptions. Actual results could differ from these estimates.

Our consolidated financial statements have been prepared on a going-concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. As of March 31, 2014, we had a working capital deficit due to the reclassification of our Series B preferred stock as a current liability, even though under Delaware law the Series B preferred stock is deemed equity. Because the holders of the Series B preferred stock are not creditors, they do not have rights of, or remedies available to, creditors. Delaware law does not recognize a right of preferred stockholders to force redemptions or repurchases where the corporation does not have funds legally available. Currently, we do not have sufficient funds legally available to be able to repurchase the Series B preferred stock and its accumulated unpaid dividends and management does not expect to be required to make any such repurchases during the next twelve months. Management does not believe that the Series B preferred stockholders have legal remedies that would require such repurchases (see note 10).

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

(c) Share-Based Compensation Plans

2006 Omnibus Equity Compensation Plan

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

Stock Options Activity

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

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

	Shares	Weighted Average Exercise Price	Aggregate Intrinsic Value	Weighted Average Remaining Contractual Life (Years)
Outstanding at December 31, 2013	142	$ 34.77	—	—
Granted	—	—	—	—
Exercised	—	—	—	—
Forfeited	(5)	117.80	—	—
Outstanding at March 31, 2014	137	$ 31.75	$ 145	4.5
Exercisable at March 31, 2014	136	$ 31.85	$ 145	4.5

During the three-months ended March 31, 2014 and 2013, no stock options were exercised; therefore, no cash payments were received. In addition, we did not recognize a tax benefit on our stock-based compensation expense due to our valuation allowance on substantially all of our deferred tax assets.

The following table summarizes information about stock options outstanding and exercisable at March 31, 2014 (in thousands, except per share data):

	Outstanding				Exercisable	
Range of Exercise Prices	Vested Options	Unvested Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Number Exercisable	Weighted Average Exercise Price
$1.03 - 49.99	101	1	$ 12.41	5.8	101	$ 12.36
50.00 - 99.99	26	-	83.35	0.9	26	83.35
100.00 - 117.80	9	-	107.09	0.9	9	107.09
	136	1	31.75	4.5	136	31.85

(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 (loss) on our interest rate swap for the respective periods. The gain on the interest rate swap is shown net of taxes; however, there is no tax effect as a result of a full deferred tax asset valuation allowance related to the interest rate swap.

For the three-months ended March 31, 2014 and 2013, we reclassified from other comprehensive loss to interest expense $0.1 million. During the three-months ended March 31, 2014 and 2013, we recognized in other comprehensive loss, net of taxes- an unrealized gain on derivative instrument of approximately $39 thousand and $49 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-month periods ended March 31, 2014 and 2013 (in thousands):

	Three Months Ended March 31,	
	2014	2013
Basic weighted average shares outstanding	7,267	7,267
Effect of dilutive equity instruments	—	—
Dilutive weighted average shares outstanding	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	102	131

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:

	Three Months Ended March 31,	
	2014	2013
	(In thousands)	
Net revenue:		
Radio	$ 29,445	32,959
Television	3,334	6,144
Consolidated	$ 32,779	39,103
Engineering and programming expenses:		
Radio	$ 5,073	5,104
Television	2,439	2,399
Consolidated	$ 7,512	7,503
Selling, general and administrative expenses:		
Radio	$ 14,087	15,586
Television	1,667	3,924
Consolidated	$ 15,754	19,510
Corporate expenses:	$ 1,704	2,430
Depreciation and amortization:		
Radio	$ 501	511
Television	691	774
Corporate	83	73
Consolidated	$ 1,275	1,358
(Gain) loss on the disposal of assets, net:		
Radio	$ 46	—
Television	—	—
Corporate	—	(13)
Consolidated	$ 46	(13)
Impairment charges and restructuring costs:		
Radio	$ —	—
Television	—	1,000
Corporate	—	—
Consolidated	$ —	1,000
Operating income (loss):		
Radio	$ 9,738	11,758
Television	(1,463)	(1,953)
Corporate	(1,787)	(2,490)
Consolidated	$ 6,488	7,315
Capital expenditures:		
Radio	$ 400	73
Television	114	116
Corporate	97	28
Consolidated	$ 611	217

	March 31, 2014	December 31, 2013
	(In thousands)	
Total Assets:		
Radio	$ 398,105	$ 391,134
Television	55,028	56,909
Corporate	12,951	13,705
Consolidated	$ 466,084	$ 461,748

5. Income Taxes

We are calculating our effective income tax rate using a year-to-date income tax calculation. Our income tax expense differs from the statutory federal tax rate of 35% and related statutory state tax rates, primarily due to the reversal of our deferred tax liabilities related to the tax amortization of our FCC broadcasting licenses and the establishment of a valuation allowance on substantially all of our deferred tax assets.

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 2010 through 2013 and state and local tax authorities are 2007 through 2013. The tax years that remain subject to assessment of additional liabilities by the Puerto Rico tax authority are 2009 through 2013.

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

6. Commitments and Contingencies

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

Litigation-Lehman and T. Rowe Price Complaint

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

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

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

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

On February 25, 2014, Vice Chancellor Glasscock rendered the opinion of the Court granting our motions for summary judgment and judgment on the pleadings, and denying the Plaintiffs' motion for summary judgment. Accordingly, the Plaintiffs' claims were dismissed. On April 8, 2014, LBHI filed a Notice of Appeal to the Delaware Supreme Court. T. Rowe Price did not file a Notice of Appeal, and the appeal deadline has now passed. We filed a Notice of Cross-Appeal on April 23, 2014. LBHI's Opening Brief on appeal is due on or before May 27, 2014. Scheduling of subsequent briefing will depend on the date on which the Opening Brief is filed.

Brevan Howard and Others Complaint

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

The Initial Plaintiffs further claim that we violated the Certificate of Designations by failing to take any actions or explore any options that would have given us legally available funds with which to repurchase the outstanding Series B preferred stock on October 15, 2013. In connection with their claims, Initial Plaintiffs also seek an award of contract damages. On January 17, 2014, we filed a motion to dismiss the complaint. On March 3, 2014, the complaint was amended to remove River Birch and add Brevan Howard Credit Catalyst Master Fund Ltd., Brevan Howard Master Fund, ALJ Capital I, LP, ALJ Capital II, LP, LJR Capital, LP, and Cedarview Opportunities Master Fund, LP as additional plaintiffs. Plaintiffs filed an answering brief to our Motion to Dismiss on April 30, 2014. Our reply brief is due on May 16, 2014, and a hearing will be held on our Motion to Dismiss on June 10, 2014. We deny the allegations contained in the complaint and, to the contrary, assert that we have been and continue to be in full and complete compliance with all of our obligations under the Certificate of Designations, as fully disclosed in our public filings dating back to 2009. Accordingly, we believe that the complaint's allegations are frivolous and wholly without merit and intend to contest such allegations vigorously.

7. Fair Value Measurement Disclosures

Fair Value of Financial Instruments

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

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

The fair value of the senior secured notes are estimated using market quotes from a major financial institution taking into consideration the most recent activity and are considered Level 2 measurements within the fair value hierarchy. The fair value of the Series B cumulative exchangeable redeemable preferred stock and the promissory notes payable were based upon either: (a) unobservable market quotes from a major financial institution taking into consideration the most recent activity or (b) discounted cash flow analyses based on the current borrowing rates for similar types of borrowing arrangements resulting in a Level 3 classification.

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

		March 31, 2014		December 31, 2013	
Description	**Fair Value Hierarchy**	**Carrying Amount**	**Fair Value**	**Carrying Amount**	**Fair Value**
12.5% senior secured notes due 2017	Level 2	$ 275.0	307.3	$ 275.0	297.7
10 3/4% Series B cumulative exchangeable redeemable preferred stock	Level 3	129.1	41.9	126.6	37.8
Promissory note payable, included in other long-term debt	Level 3	5.5	4.7	5.5	4.5
Promissory note payable, included in other long-term debt	Level 3	2.7	2.7	2.7	2.7

Fair Value of Derivative Instruments

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

Description	March 31, 2014 carrying value and balance sheet location of derivative instruments	Fair value measurements at March 31, 2014 — Liabilities: 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	$ 563	—	563	—

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

The interest rate swap fair value is derived from the present value of the difference in cash flows based on the forward-looking LIBOR yield curve rates, as compared to our fixed rate applied to the hedged amount through the term of the agreement, less adjustments for credit risk. There were no transfers between Levels during the three-month periods ended March 31, 2014 and 2013, respectively.

Interest rate swaps	Three-Months Ended March 31, 2014	2013
Gain recognized in other comprehensive loss (effective portion)	$ 39	49

8. Derivative Instrument and Hedging Activity

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

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

	As of March 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	$ 563	—	563	563	—	—

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

9. 12.5% Senior Secured Notes due 2017

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

Interest

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

The Additional Interest applicable fiscal periods are as follows:

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

Although our secured leverage ratio as of June 30, 2013 and December 31, 2013 was greater than 4.75 to 1.00, we recorded positive consolidated station operating income for our television segment for the last twelve months ended June 30, 2013 and December 31, 2013 (as defined in the Indenture). Therefore, during the periods ending June 30, 2013 and December 31, 2013 no Additional Interest was incurred and/or payable.

Collateral and Ranking

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

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

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

Covenants and Other Matters

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

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

The Indenture contains certain customary representations and warranties, affirmative covenants and events of default which could, subject to certain conditions, cause the Notes to become immediately due and payable, including, but not limited to, the failure to make premium 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 December 31, 2013 and March 31, 2014, we were in compliance with all of our covenants under our Indenture.

10. $10\,^3/_4$% Series B Cumulative Exchangeable Redeemable Preferred Stock

Voting Rights Triggering Event

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

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

Following the occurrence, and during the continuation, of the Voting Rights Triggering Event, holders of the outstanding Series B preferred stock will be entitled to elect two directors to newly created positions on our Board of Directors, and we will be subject to more restrictive operating covenants, including a prohibition on our ability to incur any additional indebtedness and restrictions on our ability to pay dividends or make distributions, redeem or repurchase securities, make investments, enter into transactions with affiliates or merge or consolidate with (or sell substantially all of our assets to) any other person. The right to elect the two new directors may be exercised initially either at a special meeting of the holders of Series B preferred stock or at any annual meeting of the stockholders held for the purpose of electing directors. We have been informed that a holder of more than 10% of our Series B preferred stock intends to nominate two directors at our Annual Meeting of Stockholders scheduled on June 6, 2014.

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. The indenture governing our Notes currently 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 $10\,^3/_4$% per year, of the $1,000 liquidation preference per share. All dividends are cumulative, whether or not earned or declared, and are payable quarterly in arrears on specified dividend payment dates. While the Voting Rights Triggering Event continues, we cannot pay dividends on the Series B preferred stock without causing a breach of covenants under the indenture governing our Notes.

On March 29, 2013, the Board of Directors declared a dividend for the dividends due April 15, 2013 to the holders of our Series B preferred stock of record as of April 1, 2013. The dividends of $26.875 per share were paid in cash on April 15, 2013. Additionally, dividends were paid as part of the repurchase of 1,800 shares of Series B preferred stock on October 15, 2013. As of March 31, 2014, the aggregate cumulative unpaid dividends on the outstanding shares of the Series B preferred stock was approximately $38.5 million, which is accrued on our consolidated balance sheet as 10 ¾% Series B cumulative exchangeable redeemable preferred stock.

Redemption Date and Subsequent Accounting Treatment on the Preferred Stock

Prior to October 15, 2013, the Series B preferred stock was considered "conditionally redeemable" because the redemption of the shares of Series B preferred stock was contingent on the Series B preferred stock holders 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 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"). Even though under Delaware law, the Series B preferred stock is deemed equity, under ASC 480, if an instrument changes from being "conditionally redeemable" to "mandatorily redeemable," then the financial instrument should be reclassified as a liability.

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

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

General Overview

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

Our radio stations are located in six of the eight most populous Hispanic markets in the United States: Los Angeles, New York, Puerto Rico, Chicago, Miami and San Francisco. The Los Angeles and New York markets have the largest and second largest Hispanic populations and are also the largest and second largest radio markets in the United States measured by advertising revenue, respectively. We format the programming of each of our radio stations to capture a substantial share of the Hispanic audience in their respective markets. The U.S. Hispanic population is diverse, consisting of numerous identifiable ethnic groups from many different countries of origin, and each ethnic group has its own musical and cultural heritage. Since the music, culture, customs and Spanish dialects vary from one radio market to another, we strive to maintain familiarity with the musical tastes and preferences of each of the various Hispanic ethnic groups. To accommodate and monetize such diversity, we customize our programming to match the local preferences of our target demographic audience in each market we serve. For the three-months ended March 31, 2014 and 2013, our radio revenue was generated primarily from the sale of local, national and network advertising, and our radio segment generated 90% and 84% of our consolidated net revenues, respectively.

Our television stations and related affiliates operate under the "MegaTV" brand. We have created a unique television format which focuses on entertainment, current events and variety with high-quality content. Our programming is formatted to capture a larger share of the U.S. Hispanic audience by focusing on our core strengths as an "entertainment" company, thus offering a new alternative compared to the traditional Hispanic television channels. MegaTV's programming is based on a strategy designed to showcase a combination of programs, ranging from televised radio-branded shows to general entertainment programs, such as music, celebrity, debate, interviews and personality based shows. As part of our strategy, we have incorporated certain of our radio on-air personalities into our television programming. In addition, we have included interactive elements into our programming to complement our Internet websites. We produce over 50 hours of original programming per week. For the three-months ended March 31, 2014 and 2013, our television revenue was generated primarily from the sale of local advertising and paid programming and generated 10% and 16% of our consolidated net revenues, respectively.

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

Business Drivers and Financial Statement Presentation

The following discussion provides a brief description of certain key items that appear in our consolidated financial statements and general business factors that impact these items.

Net Revenue Description and Factors

Our net revenue is primarily derived from the sale of advertising airtime to local, national and network advertisers. Net revenue is gross revenue less agency commissions, which are generally 15% of gross revenue.

- Local revenue generally consists of advertising airtime sold in a station's local market either directly to the advertiser or through an advertiser's agency. Local revenue includes local spot sales, integrated sales, sponsorship sales and paid-programming (or infomercials). For the three-months ended March 31, 2014 and 2013, local revenue comprised 65% and 54% of our gross revenues, respectively.
- National and network revenue generally consists of advertising airtime sold to agencies purchasing advertising for multiple markets. National sales are generally facilitated by our national representation firm, which serves as our agent in these transactions. For the three-months ended March 31, 2014 and 2013, national revenue comprised 13% and 11% of our gross revenues, respectively. For the year 2014, network sales consist of advertising airtime sold on our Aire Network platform by our network sales staff. For the year 2013, network sales generally consisted of advertising airtime sold to our former network sales partner. For the three-months ended March 31, 2014 and 2013 comprised 4% and 3% of our gross revenues, respectively.

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

Our advertising rates are primarily based on the following factors:

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

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

In addition to advertising revenue, we also generate revenue from barter sales, special events revenue, interactive revenue, syndication revenue, subscriber revenue and other revenue. For the three-months ended March 31, 2014 and 2013, these revenues combined comprised approximately 17% and 32% of our gross revenues, respectively.

- *Barter sales.* We use barter sales agreements to reduce cash paid for operating costs and expenses by exchanging advertising airtime for goods or services. However, we endeavor to minimize barter revenue in order to maximize cash revenue from our available airtime.
- *Special events revenue.* We generate special events revenue from ticket sales and event sponsorships, as well as profit-sharing arrangements by producing or co-producing live concerts and events promoted by our radio and television stations.
- *Interactive revenue.* We derive internet revenue from our websites through the sale of advertiser promotions and advertising on our websites and the sale of advertising airtime during audio streaming of our radio stations over the internet.
- *Syndication revenue.* We receive syndication revenue from licensing various MegaTV content internationally.
- *Subscriber revenue.* We receive subscriber revenue in the form of a per subscriber based fee, which is paid to us by cable and satellite providers.
- *Other revenue.* We receive other ancillary revenue such as rental income from renting available tower space or sub-channels.

Operating Expenses Description and Factors

Our operating expenses consist primarily of (1) engineering and programming expenses, (2) selling, general and administrative expenses and (3) corporate expenses.

- *Engineering and programming expenses.* Engineering and programming expenses are related to the delivery and creation of our programming content on the air. These expenses include compensation and benefits for employees involved in engineering and programming, transmitter-related expenses, originally produced content, on-air promotions, acquired programming, music license fees, and other expenses.
- *Selling, general and administrative expenses.* Selling, general and administrative expenses are related to the costs of selling our programming content and administrative costs associated with operating and managing our stations. These expenses include compensation and benefits for employees involved in selling and administrative functions, commissions, rating services, advertising, barter expenses, facilities expenses, special events expenses, professional fees, insurance, allowance for doubtful accounts, affiliate station compensation and other expenses.
- *Corporate expenses.* Corporate expenses are related to the operations of our corporate offices and matters. These expenses include compensation and benefits for our corporate employees, professional fees, insurance, corporate facilities expenses and other expenses.

We strive to control our operating expenses by centralizing certain functions at our corporate offices and consolidating certain functions in each of our market clusters. Also, in our pursuit to control our operating expenses, we work closely with our local station management and vendors.

Comparison Analysis of the Operating Results for the Three-Months Ended March 31, 2014 and 2013

The following summary table presents financial data for each of our operating segments:

	Three Months Ended March 31,	
	2014	2013
	(In thousands)	
Net revenue:		
Radio	$ 29,445	32,959
Television	3,334	6,144
Consolidated	$ 32,779	39,103
Engineering and programming expenses:		
Radio	$ 5,073	5,104
Television	2,439	2,399
Consolidated	$ 7,512	7,503
Selling, general and administrative expenses:		
Radio	$ 14,087	15,586
Television	1,667	3,924
Consolidated	$ 15,754	19,510
Corporate expenses:	1,704	2,430
Depreciation and amortization:		
Radio	$ 501	511
Television	691	774
Corporate	83	73
Consolidated	$ 1,275	1,358
(Gain) loss on the disposal of assets, net:		
Radio	$ 46	—
Television	—	—
Corporate	—	(13)
Consolidated	$ 46	(13)
Impairment charges and restructuring costs:		
Radio	$ —	—
Television	—	1,000
Corporate	—	—
Consolidated	$ —	1,000
Operating income (loss):		
Radio	$ 9,738	11,758
Television	(1,463)	(1,953)
Corporate	(1,787)	(2,490)
Consolidated	$ 6,488	7,315

The following summary table presents a comparison of our results of operations for the three-months ended March 31, 2014 and 2013. Various fluctuations in the table are discussed below. This section should be read in conjunction with our unaudited condensed consolidated financial statements and notes.

	Three Months Ended March 31,	
	2014	2013
	(In thousands)	
Net revenue	$ 32,779	39,103
Engineering and programming expenses	7,512	7,503
Selling, general and administrative expenses	15,754	19,510
Corporate expenses	1,704	2,430
Depreciation and amortization	1,275	1,358
Loss (gain) loss on disposal of assets, net of disposal costs	46	(13)
Impairment charges and restructuring costs	—	1,000
Operating income	$ 6,488	7,315
Interest expense, net	(9,928)	(9,931)
Dividends on Series B preferred stock classified as interest expense	(2,433)	—
Income tax expense	214	137
Net loss	$ (6,087)	(2,753)

Net Revenue

The decrease in our consolidated net revenues of $6.3 million, or 16%, was due to the decreases in both our radio and television segments' net revenues. Our radio segment net revenues decreased $3.5 million or 11%, due to a decrease in special events revenue, which was offset by increases in local and network sales. The special events revenue decrease occurred throughout most of our markets, with the exception of our San Francisco market. The increase in local sales was mainly in our Los Angeles, New York and Puerto Rico markets. The increase in network sales occurred throughout all of our markets. Our television segment net revenues decreased $2.8 million or 46%, due to the decreases in special events revenue, paid-programming, local and national spot sales.

Selling, General and Administrative Expenses

The decrease in our consolidated selling, general and administrative expenses of $3.8 million or 19% was due to the decreases in both our radio and television segments' expenses. Our radio segment expenses decreased $1.5 million or 10%, mainly due to decreases in special events expenses, which were offset by increases in compensation and benefits, network affiliate station compensation and professional fees. Our television segment expenses decreased $2.3 million or 58%, primarily due to decreases in special events expenses and rating services expense.

Corporate Expenses

The decrease in corporate expenses of $0.7 million or 30% was mostly due to decreases in professional fees and compensation and benefits.

Operating Income

The decrease in operating income of $0.8 million or 11% was mainly due to the decrease in net revenue related to special events.

Dividends on Series B preferred stock classified as interest expense

Prior to October 15, 2013, the Series B preferred stock was considered "conditionally redeemable" because the redemption of the shares of Series B preferred stock was contingent on the Series B preferred stock holders 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 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"). Even though under Delaware law, the Series B preferred stock is deemed equity, under ASC 480, if an instrument changes from being "conditionally redeemable" to "mandatorily redeemable," then the financial instrument should be reclassified as a liability.

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

Net Loss

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

Liquidity and Capital Resources

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

Our consolidated financial statements have been prepared on a going-concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. As of March 31, 2014, we had a working capital deficit due to the reclassification of our Series B preferred stock as a current liability, even though under Delaware law 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 and affiliations in order to achieve a significant presence with clusters of stations in the top U.S. Hispanic markets. We engage in discussions regarding potential acquisitions and/or dispositions and expansion of our content through media outlets from time to time in the ordinary course of business. We anticipate that any future acquisitions would be financed through funds generated from equity financing, operations, asset sales or a combination of these or other available and/or permitted sources. As a result of the consequences resulting from the occurrence of the Voting Rights Triggering Event, we are currently not able to finance acquisitions through the incurrence of additional debt and are subject to additional restrictions which may preclude us from being able to execute this strategy.

12.5% senior secured notes due 2017

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

Interest

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

The Additional Interest applicable fiscal periods are as follows:

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

Although our secured leverage ratio as of June 30, 2013 and December 31, 2013 was greater than 4.75 to 1.00, we recorded positive consolidated station operating income for our television segment for the last twelve months ended June 30, 2013 and December 31, 2013 (as defined in the Indenture). Therefore, during the periods ending June 30, 2013 and December 31, 2013 no Additional Interest was incurred and/or payable.

Collateral and Ranking

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

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

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

Covenants and Other Matters

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

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

The Indenture contains certain customary representations and warranties, affirmative covenants and events of default which could, subject to certain conditions, cause the Notes to become immediately due and payable, including, but not limited to, the failure to make premium 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 December 31, 2013 and March 31, 2014, we were in compliance with all of our covenants under our Indenture.

Summary of Capital Resources

The following summary table presents a comparison of our capital resources for the three-months ended March 31, 2014 and 2013, with respect to certain key measures affecting our liquidity. The changes set forth in the table are discussed below. This section should be read in conjunction with the unaudited condensed consolidated financial statements and notes.

	Three-Month Ended March 31, 2014	Three-Month Ended March 31, 2013	Change $
	(In thousands)		
Capital expenditures:			
Radio	$ 400	73	327
Television	114	116	(2)
Corporate	97	28	69
Consolidated	$ 611	217	394
Net cash flows provided by operating activities	$ 11,291	11,004	287
Net cash flows used in investing activities	(591)	(194)	(397)
Net cash flows used in financing activities	(85)	(78)	(7)
Net increase in cash and cash equivalents	$ 10,615	10,732	

Capital Expenditures

The increase in our capital expenditures was primarily due to various radio systems upgrades and improvements.

Net Cash Flows Provided by Operating Activities

There were no material changes in our net cash flows from operating activities.

Net Cash Flows Used in Investing Activities

Changes in our net cash flows from investing activities were a result of the increase in our capital expenditures.

Net Cash Flows Used in Financing Activities

There were no material changes in our net cash flows from financing activities.

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.

Critical Accounting Policies

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

- it requires assumptions to be made that were uncertain at the time the estimate was made; and
- changes in the estimate or different estimates that could have been selected could have a material impact on our results of operations or financial condition.

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

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

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

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

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

Changes In Internal Control Over Financial Reporting. There has been no change in our internal control over financial reporting during the quarter ended March 31, 2014 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II—OTHER INFORMATION

Item 1. *Legal Proceedings*

Litigation-Lehman and T. Rowe Price Complaint

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

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

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

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

On February 25, 2014, Vice Chancellor Glasscock rendered the opinion of the Court granting our motions for summary judgment and judgment on the pleadings, and denying the Plaintiffs' motion for summary judgment. Accordingly, the Plaintiffs' claims were dismissed. On April 8, 2014, LBHI filed a Notice of Appeal to the Delaware Supreme Court. T. Rowe Price did not file a Notice of Appeal, and the appeal deadline has now passed. We filed a Notice of Cross-Appeal on April 23, 2014. LBHI's Opening Brief on appeal is due on or before May 27, 2014. Scheduling of subsequent briefing will depend on the date on which the Opening Brief is filed.

Brevan Howard and Others Complaint

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

The Initial Plaintiffs further claim that we violated the Certificate of Designations by failing to take any actions or explore any options that would have given us legally available funds with which to repurchase the outstanding Series B preferred stock on October 15, 2013. In connection with their claims, Initial Plaintiffs also seek an award of contract damages. On January 17, 2014, we filed a motion to dismiss the complaint. On March 3, 2014, the complaint was amended to remove River Birch and add Brevan Howard Credit Catalyst Master Fund Ltd., Brevan Howard Master Fund, ALJ Capital I, LP, ALJ Capital II, LP, LJR Capital, LP, and Cedarview Opportunities Master Fund, LP as additional plaintiffs. Plaintiffs filed an answering brief to our Motion to Dismiss on April 30, 2014. Our reply brief is due on May 16, 2014, and a hearing will be held on our Motion to Dismiss on June 10, 2014. 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: May 15, 2014

EXHIBIT INDEX

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