
**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, 2016

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 November 7, 2016, 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, 2015, 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, 2016	December 31, 2015
Current assets:		
Cash and cash equivalents	\$ 27,423	\$ 19,443
Receivables:		
Trade	28,592	34,415
Barter	217	231
	28,809	34,646
Less allowance for doubtful accounts	514	1,431
Net receivables	28,295	33,215
Prepaid expenses and other current assets	6,857	5,318
Total current assets	62,575	57,976
Property and equipment, net of accumulated depreciation of \$74,969 in 2016 and \$71,590 in 2015	28,823	30,460
FCC broadcasting licenses	323,961	319,356
Goodwill	32,806	32,806
Other intangible assets, net of accumulated amortization of \$1,092 in 2016 and \$1,020 in 2015	1,456	1,528
Assets held for exchange	—	2,794
Deferred tax assets	1,666	1,758
Other assets	427	531
Total assets	\$ 451,714	\$ 447,209
Liabilities and Stockholders' Deficit		
Current liabilities:		
Accounts payable and accrued expenses	\$ 13,948	\$ 16,552
Accrued interest	15,883	7,194
Unearned revenue	960	796
Other liabilities	15	30
Current portion of 12.5% senior secured notes due 2017, net of unamortized discount of \$1,149 in 2016 and net of deferred financing costs of \$1,989 in 2016	271,862	—
Current portion of other long-term debt	4,692	306
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, 2016 and December 31, 2015 and \$62,865 and \$55,565 of dividends payable as of September 30, 2016 and December 31, 2015, respectively.	153,414	146,114
Total current liabilities	460,774	170,992
Other liabilities, less current portion	2,967	3,007
Derivative instruments	70	220
12.5% senior secured notes due 2017, net of unamortized discount of \$2,609 in 2015 and net of deferred financing costs of \$4,535 in 2015	—	267,856
Other long-term debt, less current portion	—	4,616
Deferred income taxes	105,599	99,066
Total liabilities	569,410	545,757
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, 2016 and December 31, 2015, 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, 2016 and December 31, 2015, respectively	—	—
Class B common stock, \$0.0001 par value. Authorized 50,000,000 shares; 2,340,353 shares issued and outstanding at September 30, 2016 and December 31, 2015, respectively	—	—
Additional paid-in capital	525,903	525,344
Accumulated other comprehensive loss, net	(70)	(220)
Accumulated deficit	(643,533)	(623,676)
Total stockholders' deficit	(117,696)	(98,548)
Total liabilities and stockholders' deficit	\$ 451,714	\$ 447,209

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		Nine-Months Ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Net revenue	\$ 35,635	\$ 36,381	\$ 102,508	106,623
Operating expenses:				
Engineering and programming	7,836	7,493	23,584	23,097
Selling, general and administrative	14,211	15,315	42,644	46,918
Corporate expenses	2,505	2,870	8,047	7,442
Depreciation and amortization	1,133	1,152	3,548	3,622
Total operating expenses	25,685	26,830	77,823	81,079
(Gain) loss on the disposal of assets	—	1	(3)	(77)
Impairment charges and restructuring costs	—	735	(26)	598
Operating income	9,950	8,815	24,714	25,023
Other (expense) income:				
Interest expense, net	(10,020)	(9,951)	(30,109)	(29,879)
Dividends on Series B preferred stock classified as interest expense	(2,433)	(2,433)	(7,300)	(7,300)
Loss before income taxes	(2,503)	(3,569)	(12,695)	(12,156)
Income tax expense	2,259	4,123	7,162	7,736
Net loss	\$ (4,762)	\$ (7,692)	\$ (19,857)	(19,892)
Basic and Diluted net loss per common share	\$ (0.66)	\$ (1.06)	\$ (2.73)	(2.74)
Weighted average common shares outstanding:				
Basic and Diluted	7,267	7,267	7,267	7,267
Net loss	\$ (4,762)	\$ (7,692)	\$ (19,857)	(19,892)
Other comprehensive income, net of taxes- unrealized gain on derivative instrument	54	44	150	125
Total comprehensive loss	\$ (4,708)	\$ (7,648)	\$ (19,707)	(19,767)

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, 2016
(In thousands, except share data)

	Series C convertible preferred stock		Class A common stock		Class B common stock		Additional	Accumulated other	Accumulated	Total
	Number of	Par value	Number of	Par value	Number of	Par value	paid-in	comprehensive	deficit	stockholders'
	shares		shares		shares		capital	loss, net		deficit
Balance at December 31, 2015	380,000	\$ 4	4,166,991	\$ —	2,340,353	\$ —	\$ 525,344	\$ (220)	\$ (623,676)	\$ (98,548)
Net loss	—	—	—	—	—	—	—	—	(19,857)	(19,857)
Stock-based compensation	—	—	—	—	—	—	559	—	—	559
Unrealized gain on derivative instrument	—	—	—	—	—	—	—	150	—	150
Balance at September 30, 2016	<u>380,000</u>	<u>\$ 4</u>	<u>4,166,991</u>	<u>\$ —</u>	<u>2,340,353</u>	<u>\$ —</u>	<u>\$ 525,903</u>	<u>\$ (70)</u>	<u>\$ (643,533)</u>	<u>\$ (117,696)</u>

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,	
	2016	2015
Cash flows from operating activities:		
Net loss	\$ (19,857)	\$ (19,892)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Dividends on Series B preferred stock classified as interest expense	7,300	7,300
(Gain) loss on the disposal of assets	(3)	(77)
Impairment and restructuring charges	(26)	598
Stock-based compensation	559	4
Depreciation and amortization	3,548	3,622
Net barter (income) loss	(45)	(228)
Provision for trade doubtful accounts	(185)	(701)
Amortization of deferred financing costs	2,546	2,529
Amortization of original issued discount	1,460	1,279
Deferred income taxes	6,625	7,345
Unearned revenue-barter	223	80
Changes in operating assets and liabilities:		
Trade receivables	4,854	(4,165)
Prepaid expenses and other current assets	(1,302)	(1,794)
Other assets	104	143
Accounts payable and accrued expenses	(2,225)	1,087
Accrued interest	8,689	8,588
Other liabilities	(28)	142
Net cash provided by (used in) operating activities	<u>12,237</u>	<u>5,860</u>
Cash flows from investing activities:		
Purchases of property and equipment	(2,130)	(1,384)
Proceeds from the sale of property and equipment	—	79
Cash payment related to station exchange	(1,897)	—
Net cash used in investing activities	<u>(4,027)</u>	<u>(1,305)</u>
Cash flows from financing activities:		
Payments of other debt	(230)	(254)
Net cash used in financing activities	<u>(230)</u>	<u>(254)</u>
Net increase in cash and cash equivalents	7,980	4,301
Cash and cash equivalents at beginning of period	19,443	23,991
Cash and cash equivalents at end of period	<u>\$ 27,423</u>	<u>\$ 28,292</u>
Supplemental cash flows information:		
Interest paid	<u>\$ 17,424</u>	<u>\$ 17,505</u>
Income tax paid	<u>\$ 168</u>	<u>\$ 321</u>
Noncash investing and financing activities:		
Nonmonetary asset exchange	<u>\$ 2,794</u>	<u>\$ —</u>
Unrealized gain on derivative instruments	<u>\$ 150</u>	<u>\$ 125</u>

See accompanying notes to the unaudited condensed consolidated financial statements.

SPANISH BROADCASTING SYSTEM, INC. AND SUBSIDIARIES
NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation

The unaudited condensed consolidated financial statements include the accounts of Spanish Broadcasting System, Inc. and its subsidiaries (the Company, we, us, our or SBS). All intercompany balances and transactions have been eliminated in consolidation. The accompanying unaudited condensed consolidated financial statements as of September 30, 2016 and December 31, 2015 and for the three- and nine-month periods ended September 30, 2016 and 2015 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, 2015, included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2015. 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, 2016 through the financial statements issuance date. The results of operations for the nine-months ended September 30, 2016 are not necessarily indicative of the results for the entire year ending December 31, 2016, 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, 2016, we had a working capital deficit due primarily to three events, the reclassification of our Series B Preferred Stock as a current liability, the reclassification of our 12.5% Senior Secured Notes as a current liability, and the final payment on our promissory note relating to the acquisition of the Miami studio building being reclassified as a current liability. 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. If we are successful in repaying or refinancing our 12.5% Senior Secured Notes, and are able to generate legally available funds under Delaware law, we may be required to pay all or a portion of the accumulated preferred dividends and redeem all or a portion of the Series B Preferred Stock, to extent of the funds legally available.

As discussed in Note 9, the 12.5% Senior Secured Notes have a maturity date of April 15, 2017. We have engaged financial advisors to assist us in developing a comprehensive refinancing strategy that considers all of the Company’s obligations under its debt and capital structure. Additionally, we are participating in the Broadcast Incentive Auction and evaluating the potential monetization of our television spectrum and other assets to generate cash proceeds that would be used to repay our outstanding notes in accordance with the Indenture.

The inability of the Company to repay, refinance and/or restructure its short term obligations could result in significant liquidity requirements on the company. As there can be no assurance that we will be able to successfully implement our strategy, this condition raises substantial doubt about the Company’s ability to continue as a going-concern. The financial statements do not include adjustments, if any, that might arise from the outcome of this uncertainty.

We believe we will have sufficient cash on hand to make the final payment on the promissory note relating to the acquisition of the Miami studio building.

Recently Issued Accounting Pronouncements

In August 2016, the FASB issued ASU No. 2016-15, *Statements of Cash Flows (Topic 230)*. This new standard’s objective is to clarify how companies present and classify certain cash receipts and cash payments in the statement of cash flows. This update is effective on a retrospective basis for annual and interim periods beginning after December 15, 2017 with early adoption permitted. We are currently evaluating the impact, if any, that this new standard will have on our consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-09, *Compensation – Stock Compensation (Topic 718)*. This new standard’s objective is to simplify certain aspects of the accounting for share-based payment award transactions, including (i) income tax consequences, (ii) classification of awards as either equity or liabilities, and (iii) classification on the statement of cash flows. This update is effective on a prospective, retrospective, and modified retrospective basis for annual and interim periods beginning after December 15, 2016 with early adoption permitted. We will adopt this accounting standard update effective January 1, 2017 and are currently evaluating the impact of the provisions of this update. We do not expect this update to have a material impact on our consolidated financial statements; however, our initial assessment is subject to change.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. This new standard requires organizations that lease assets to recognize on the balance sheet the lease assets and lease liabilities for the rights and obligations created by those leases and disclose key information about the leasing agreements. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new guidance is effective for financial statements issued for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted as of the beginning of an interim or annual reporting period and must be adopted using a modified retrospective approach for leases that exist or are entered into after the beginning of the earliest comparative period in the financial statements. We are currently evaluating the impact that this new standard will have on our financial position and related disclosures and expect the impact on our assets and liabilities will be material due to the addition of right-of-use assets and lease liabilities; however the impact cannot currently be quantified.

In January 2016, the FASB issued ASU No. 2016-01, *Accounting for Financial Instruments – Recognition and Measurement*. The new guidance changes how entities measure equity investments and present changes in the fair value of financial liabilities. The new guidance requires entities to measure equity investments that do not result in consolidation and are not accounted under the equity method at fair value and recognize any changes in fair value in net income unless the investments qualify for the new practicality exception. A practicality exception will apply to those equity investments that do not have a readily determinable fair value and do not qualify for the practical expedient to estimate fair value and as such these investments may be measured at cost. The new guidance is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. We are currently evaluating the impact, if any; however, we do not expect this update to have a material impact on our financial position and results of operations.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. 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. In May 2016, the FASB issued accounting standards updates to address implementation issues and to clarify the guidance for identifying performance obligations, licenses, and determining if a company is the principal or agent in a revenue arrangement. The Company currently expects to adopt the new revenue standard in its first quarter of 2018 and continues to evaluate the method of adoption and the impact of the provisions on our financial position and results of operations, if any. We do not expect this update to have a material impact on our financial position or results of operations; however, our initial assessment is subject to change.

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 Media Corporation (formerly known as Infinity Media Corporation, "CBS Radio"), an indirect wholly-owned subsidiary 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. Pursuant to a Stockholder Agreement dated October 5, 2004 among CBS Radio, Mr. Alarcón and the Company (the "Stockholder Agreement") the holder of the Series C preferred stock is entitled to certain rights, including first negotiation rights in connection with the sale of certain of the Company's radio station assets and certain preemptive rights in respect to the Company's equity issuances.

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. Additionally, the Series C preferred stock votes on an as-converted basis equivalent to 760,000 shares of Class A common stock.

On August 8, 2016 CBS Radio entered into a Stock Purchase Agreement with the Company, AAA Trust and Mr. Alarcón (the "Stock Purchase Agreement") to sell and assign its rights related to its 380,000 shares of Series C preferred stock to the AAA Trust for \$3.8 million. AAA Trust is a Florida trust, of which Mr. Alarcón is the trustee. Pursuant to the Stock Purchase Agreement, CBS Radio has agreed to assign the rights under the registration rights agreement and Stockholder Agreement to AAA Trust. The parties closed on the Stock Purchase Agreement on August 18, 2016.

(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. The Omnibus Plan expired on July 17, 2016 and no further options can be granted under this plan.

(d) Stock Options and Nonvested Share Activity

Stock options have only been granted to employees or directors. Our stock options have various vesting schedules and are subject to the employees’ continuing service. A summary of the status of our stock options, as September 30, 2016 and June 30, 2016, and changes during the quarter ended September 30, 2016, is presented below (in thousands, except per share data and contractual life):

	Shares	Weighted Average Exercise Price	Aggregate Intrinsic Value	Weighted Average Remaining Contractual Life (Years)
Outstanding at June 30, 2016	418	\$ 5.36		
Granted	—	—		
Exercised	—	—		
Forfeited	—	—		
Outstanding at September 30, 2016	418	\$ 5.36	\$ 331,200	8.2
Exercisable at September 30, 2016	223	\$ 7.38	\$ 156,000	6.6

The following table summarizes information about our stock options outstanding and exercisable at September 30, 2016 (in thousands, except per share data and contractual life):

Range of Exercise Prices	Outstanding		Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Exercisable	
	Vested Options	Unvested Options			Number Exercisable	Weighted Average Exercise Price
\$1.03 - 49.99	223	195	\$ 5.36	8.2	223	\$ 7.38
	223	195	5.36	8.2	223	7.38

As of September 30, 2016, there was \$0.3 million of total unrecognized compensation costs related to nonvested stock-based compensation arrangements granted under all of our plans. The cost is expected to be recognized over a weighted average period of approximately 0.9 years.

(e) 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, 2016 and 2015, we reclassified from other comprehensive loss to interest expense \$0.1 million. During the three-months ended September 30, 2016 and 2015, we recognized in other comprehensive income, net of taxes- an unrealized gain on derivative instrument of approximately \$54 thousand and \$44 thousand, respectively.

For the nine-months ended September 30, 2016 and 2015, we reclassified from other comprehensive loss to interest expense \$0.2 million. During the nine-months ended September 30, 2016 and 2015, we recognized in other comprehensive income, net of taxes- an unrealized gain on derivative instrument of approximately \$150 thousand and \$125 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, 2016 and 2015 (in thousands):

	Three-Months Ended September 30,		Nine-Months Ended September 30,	
	2016	2015	2016	2015
Basic weighted average shares outstanding	7,267	7,267	7,267	7,267
Effect of dilutive equity instruments	—	—	—	—
Dilutive weighted average shares outstanding	<u>7,267</u>	<u>7,267</u>	<u>7,267</u>	<u>7,267</u>
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	<u>399</u>	<u>111</u>	<u>409</u>	<u>106</u>

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,	
	2016	2015	2016	2015
Net revenue:				
Radio	\$ 32,055	\$ 33,476	\$ 92,009	97,195
Television	3,580	2,905	10,499	9,428
Consolidated	<u>\$ 35,635</u>	<u>\$ 36,381</u>	<u>\$ 102,508</u>	<u>106,623</u>
Engineering and programming expenses:				
Radio	\$ 5,853	\$ 5,551	\$ 17,997	17,113
Television	1,983	1,942	5,587	5,984
Consolidated	<u>\$ 7,836</u>	<u>\$ 7,493</u>	<u>\$ 23,584</u>	<u>23,097</u>
Selling, general and administrative expenses:				
Radio	\$ 12,712	\$ 13,583	\$ 37,515	42,716
Television	1,499	1,732	5,129	4,202
Consolidated	<u>\$ 14,211</u>	<u>\$ 15,315</u>	<u>\$ 42,644</u>	<u>46,918</u>
Corporate expenses:				
	<u>\$ 2,505</u>	<u>\$ 2,870</u>	<u>\$ 8,047</u>	<u>7,442</u>
Depreciation and amortization:				
Radio	\$ 457	\$ 432	\$ 1,420	1,363
Television	568	630	1,815	1,977
Corporate	108	90	313	282
Consolidated	<u>\$ 1,133</u>	<u>\$ 1,152</u>	<u>\$ 3,548</u>	<u>3,622</u>
(Gain) loss on the disposal of assets, net:				
Radio	\$ —	\$ —	\$ (3)	(68)
Television	—	1	—	2
Corporate	—	—	—	(11)
Consolidated	<u>\$ —</u>	<u>\$ 1</u>	<u>\$ (3)</u>	<u>(77)</u>
Impairment charges and restructuring costs:				
Radio	\$ —	\$ 925	\$ —	925
Television	—	—	—	—
Corporate	—	(190)	(26)	(327)
Consolidated	<u>\$ —</u>	<u>\$ 735</u>	<u>\$ (26)</u>	<u>598</u>
Operating income (loss):				
Radio	\$ 13,033	\$ 12,985	\$ 35,080	35,146
Television	(470)	(1,400)	(2,032)	(2,737)
Corporate	(2,613)	(2,770)	(8,334)	(7,386)
Consolidated	<u>\$ 9,950</u>	<u>\$ 8,815</u>	<u>\$ 24,714</u>	<u>25,023</u>
Capital expenditures:				
Radio	\$ 92	\$ 248	\$ 1,371	698
Television	204	295	513	477
Corporate	82	117	246	209
Consolidated	<u>\$ 378</u>	<u>\$ 660</u>	<u>\$ 2,130</u>	<u>1,384</u>
Total Assets:				
Radio		\$ 392,603	\$ 392,926	
Television		56,338	51,388	
Corporate		2,773	2,895	
Consolidated		<u>\$ 451,714</u>	<u>\$ 447,209</u>	

5. Income Taxes

We are calculating our effective income tax rate using a year-to-date income tax calculation, due to the full valuation allowance on the Company's deferred tax assets, other than the net operating loss carryforwards of our U.S. Licensing companies and the U.S. AMT tax credits. In assessing the realizability of the deferred tax assets, management considers whether it is more likely than not that some portion or the entire deferred tax assets will not be realized. The ultimate realization of the deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax assets, projected future taxable income, and tax planning strategies in making this assessment. Due to the continued operating losses reported through Q3 2016, management has not changed its valuation allowance position as of September 30, 2016, from December 31, 2015.

Our income tax expense differs from the statutory federal tax rate of 35% and related statutory state tax rates primarily due to the tax amortization on certain indefinite-lived intangible assets that do not have any valuation allowance and the continued losses that cannot be realized due to the full valuation allowance.

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 2013 through 2015. The tax years that remain subject to assessment of additional liabilities by state, local, and Puerto Rico tax authorities are 2011 through 2015.

From time to time, we continue to be subject to state income tax audits, including an active audit by a State tax authority (the "State") for the income tax years from December 31, 2010 through 2013. The audit is in the preliminary stages; however, based on the company's history of audits with the state, we do not anticipate any material tax impact, 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, 2016 and December 31, 2015.

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.

Local Tax Assessment

The company has received an audit assessment (the "Assessment") wherein it was proposed that the Company underpaid a local tax for the tax periods between June 1, 2005 and May 31, 2015 totaling \$1,439,452 in underpaid tax, applicable interest and penalties. The Company disagrees with the assessment and related calculations but is developing a settlement strategy to discuss and pursue with the taxing jurisdiction with the hope of avoiding a lengthy litigation process. While we are uncertain as to whether the jurisdiction will accept this offer, an accrual of \$391,000, based upon our current best estimate of probable loss, was charged to operations in the accompanying financial statements. However, if the settlement offer is not accepted by the jurisdiction, the amount of the ultimate loss to the Company, if any, may equal the entire amount of the Assessment sought by the taxing jurisdiction.

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 fair value of the Series B cumulative exchangeable redeemable preferred stock may be impacted by the potential monetization of our television spectrum and other assets to generate cash proceeds which we could use to repay, refinance and/or restructure our short term obligations.

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

Description	Fair Value Hierarchy	September 30, 2016		December 31, 2015	
		Carrying Amount	Fair Value	Carrying Amount	Fair Value
12.5% senior secured notes due 2017	Level 2	\$ 275.0	275.9	\$ 275.0	281.2
10 ³ / ₄ % Series B cumulative exchangeable redeemable preferred stock	Level 3	153.4	68.0	146.1	60.1
Promissory note payable	Level 3	4.7	4.6	4.9	4.2

Fair Value of Derivative Instruments

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

Description	Fair value measurements at September 30, 2016			
	September 30, 2016 carrying value and balance sheet location of derivative instruments	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	\$ 70	—	70	—

Description	Fair value measurements at December 31, 2015			
	December 31, 2015 carrying value and balance sheet location of derivative instruments	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	\$ 220	—	220	—

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, 2016 and 2015, respectively.

Interest rate swaps	Three-Months Ended September 30,		Nine-Months Ended September 30,	
	2016	2015	2016	2015
Gain recognized in other comprehensive loss (effective portion)	\$ 54	44	150	125

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 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):

Description	As of September 30, 2016					
	Gross amounts of recognized liabilities	Gross amounts offset in the balance sheet	Net amounts of liabilities presented in the balance sheet	Gross amounts not offset in the balance sheet		Net amount
				Financial Instruments	Cash collateral received	
Interest rate swap	\$ 70	—	70	70	—	—

Description	As of December 31, 2015					
	Gross amounts of recognized liabilities	Gross amounts offset in the balance sheet	Net amounts of liabilities presented in the balance sheet	Gross amounts not offset in the balance sheet		Net amount
				Financial Instruments	Cash collateral received	
Interest rate swap	\$ 220	—	220	220	—	—

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”), due April 15, 2017, 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. The Notes mature in April of 2017. Cash from operating activities will not be sufficient to repay the Notes. We have engaged financial advisors to assist us in developing a comprehensive refinancing strategy that considers all of the Company’s obligations under its debt and capital structure. Additionally, we are participating in the Broadcast Incentive Auction and evaluating the potential monetization of our television spectrum and other assets to generate cash proceeds that would be used to repay our outstanding notes in accordance with the Indenture. The inability of the Company to repay, refinance and/or restructure its short term obligations could result in significant liquidity requirements on the company. As there can be no assurance that we will be able to successfully implement our strategy, this condition raises substantial doubt about the Company’s ability to continue as a going-concern.

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), (6), (7), and (8) 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 10) currently prevents us from incurring any such additional debt.

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

Covenants and Other Matters

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

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

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

\$15 million or more (excluding amounts covered by insurance), which judgments are not paid, discharged or stayed, for a period of 60 days; and certain events of bankruptcy or insolvency.

As of September 30, 2016, we were in compliance with all of our covenants under our Indenture.

10. 10³/₄% Series B Cumulative Exchangeable Redeemable Preferred Stock

Voting Rights Triggering Event

On October 30, 2003, we partially financed the purchase of a radio station with proceeds from the sale, through a private placement, of 75,000 shares of our 10³/₄% Series A cumulative exchangeable redeemable preferred stock, par value \$0.01 per share, with a liquidation preference of \$1,000 per share (the "Series A preferred stock"), without a specified maturity date. The gross proceeds from the issuance of the Series A preferred stock amounted to \$75.0 million.

On February 18, 2004, we commenced an offer to exchange registered shares of our 10³/₄% Series B cumulative exchangeable redeemable preferred stock, par value \$0.01 per share and liquidation preference of \$1,000 per share for any and all shares of our outstanding unregistered Series A preferred stock. On April 5, 2004, we completed the exchange offer and exchanged 76,702 shares of our Series B preferred stock for all of our then outstanding shares of Series A preferred stock.

We had the option to redeem all or some of the registered Series B preferred stock for cash on or after October 15, 2009 at 103.583%, October 15, 2010 at 101.792% and October 15, 2011 and thereafter at 100%, plus accumulated and unpaid dividends to the redemption date. On October 15, 2013, each holder of Series B preferred stock had the right to request that we repurchase (subject to the legal availability of funds under 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. Under the terms of our Series B preferred stock, we are required to pay dividends at a rate of 10³/₄% per year of the \$1,000 liquidation preference per share of Series B preferred stock. From October 30, 2003 to October 15, 2008, we had the option to pay these dividends in either cash or additional shares of Series B preferred stock. During October 15, 2003 to October 30, 2008, we increased the carrying amount of the Series B preferred stock by approximately \$17.3 million for stock dividends, which were accreted using the effective interest method. Since October 15, 2008, we have been required to pay the dividends on our Series B preferred stock in cash.

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 have been 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. At our Annual Meeting of Stockholders in 2014, the holders of the Series B preferred stock nominated and elected Alan Miller and Gary Stone to serve as the Series B preferred stock directors who have remained on the board since then.

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 10³/₄% 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.

As of September 30, 2016, the aggregate cumulative unpaid dividends on the outstanding shares of the Series B preferred stock was approximately \$62.9 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 is being recorded as interest expense (i.e. “Dividends on Series B preferred stock classified as interest expense”).

11. Asset Exchange

On January 4, 2016, the Company completed an asset exchange with International Broadcasting Corp. under which the Company agreed to exchange certain assets used or useful in the operations of WIOA-FM, WIOC-FM, and WZET-FM in Puerto Rico for certain assets used or useful in the operations of WTCV (DT), WVEO (DT), and WVOZ (TV) in Puerto Rico previously owned and operated by International Broadcasting Corp.

The asset exchange is being accounted for as a non-monetary exchange in accordance with ASC-845 *Nonmonetary Transactions*, as the Company did not acquire any significant processes to meet the definition of a business in accordance with ASC 805 *Business Combinations*. As the transaction involved significant monetary consideration, the Company recorded the exchange at fair value. The fair value of the assets received in the asset exchange was \$2.9 million, as determined by an independent third party valuation. In addition, the Company paid \$1.9 million in cash which we attribute to the value of the acquired television spectrum. Subsequently, we have filed an application to participate in the FCC’s Broadcast Incentive Auction with our Puerto Rico television stations to potentially generate cash proceeds that are expected to be created by the auction process.

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 Networks with over 100 affiliate radio stations serving over 53 of the top U.S. Hispanic markets, including all the top 30 Hispanic markets. AIRE Radio Networks currently covers 90% of the coveted U.S. Hispanic market. Our AIRE Radio Networks reach over 13.0 million listeners in an average week with our targeted networks. For the nine-months ended September 30, 2016 and 2015, our radio revenue was generated primarily from the sale of local, national and network advertising, and our radio segment generated 90% and 91% 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, Houston and Puerto Rico 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 70 hours of original programming per week. For the nine-months ended September 30, 2016 and 2015, our television revenue was generated primarily from the sale of local advertising and paid programming and generated 10% and 9% of our consolidated net revenues, respectively.

As part of our operating business, we also maintain multiple Spanish and bilingual websites, including www.lamusica.com, Mega.tv and various station websites that provide content related to Latin music, entertainment, news and culture, as well as the LaMusica mobile app. The LaMusica mobile app is a music and entertainment video and audio app, that programs an extensive series of short form videos, simultaneously live streams our radio stations', includes hundreds of curated playlists and has tools that enable users to personalize their mobile radio streaming experience. The new video enhancements to our mobile app significantly enhance the audience's engagement level and increases the reach of our mobile offering. In addition, we produce live concerts and events in the United States and Puerto Rico. Concerts generate revenue from ticket sales, sponsorship and promotions, raise awareness of our brands in the surrounding communities and provide our advertising partners additional opportunities to reach their target audience.

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, 2016 and 2015, local revenue comprised 67% and 62% 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, 2016 and 2015, national revenue comprised 13% and 14% 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, 2016 and 2015, network revenue comprised 6% and 9% of our gross revenues, respectively.

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

Our advertising rates are primarily based on the following factors:

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

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

In addition to advertising revenue, we also generate revenue from barter sales, special events revenue, interactive revenue, syndication revenue, subscriber revenue and other revenue. For the nine-months ended September 30, 2016 and 2015, these revenues combined comprised approximately 13% and 15% 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. 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, 2016 and 2015

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

	Three-Months Ended September 30,	
	2016	2015
Net revenue:		
Radio	\$ 32,055	33,476
Television	3,580	2,905
Consolidated	<u>\$ 35,635</u>	<u>36,381</u>
Engineering and programming expenses:		
Radio	\$ 5,853	5,551
Television	1,983	1,942
Consolidated	<u>\$ 7,836</u>	<u>7,493</u>
Selling, general and administrative expenses:		
Radio	\$ 12,712	13,583
Television	1,499	1,732
Consolidated	<u>\$ 14,211</u>	<u>15,315</u>
Corporate expenses:	<u>\$ 2,505</u>	<u>2,870</u>
Depreciation and amortization:		
Radio	\$ 457	432
Television	568	630
Corporate	108	90
Consolidated	<u>\$ 1,133</u>	<u>1,152</u>
(Gain) loss on the disposal of assets, net:		
Radio	\$ —	—
Television	—	1
Corporate	—	—
Consolidated	<u>\$ —</u>	<u>1</u>
Impairment charges and restructuring costs:		
Radio	\$ —	925
Television	—	—
Corporate	—	(190)
Consolidated	<u>\$ —</u>	<u>735</u>
Operating income (loss):		
Radio	\$ 13,033	12,985
Television	(470)	(1,400)
Corporate	(2,613)	(2,770)
Consolidated	<u>\$ 9,950</u>	<u>8,815</u>

The following summary table presents a comparison of our results of operations for the three-months ended September 30, 2016 and 2015 (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,	
	2016	2015
Net revenue	\$ 35,635	36,381
Engineering and programming expenses	7,836	7,493
Selling, general and administrative expenses	14,211	15,315
Corporate expenses	2,505	2,870
Depreciation and amortization	1,133	1,152
(Gain) loss on disposal of assets, net of disposal costs	—	1
Impairment charges and restructuring costs	—	735
Operating income	9,950	8,815
Interest expense, net	(10,020)	(9,951)
Dividends on Series B preferred stock classified as interest expense	(2,433)	(2,433)
Income tax expense	2,259	4,123
Net loss	<u>\$ (4,762)</u>	<u>(7,692)</u>

Net Revenue

The decrease in our consolidated net revenues of \$0.7 million or 2% was due to decreases in our radio segment offset by an increase in our television segments' net revenues. Our radio segment net revenues decreased \$1.4 million or 4%, due to decreases in national, network, barter and internet revenue, which were partially offset by increases in local sales and special events. Our local sales increased in our San Francisco, Miami, Los Angeles and Puerto Rico markets, while our national sales decreased in our New York, Chicago, San Francisco and Los Angeles markets. Our special events revenue increased in our Los Angeles, San Francisco and Puerto Rico markets due to an increase in scheduled events. Our television segment net revenues increased \$0.7 million or 23%, due to the increases in national, local and barter sales.

Engineering and Programming Expenses

The increase in our consolidated engineering and programming expenses of \$0.3 million or 5% was primarily due to the increase in our radio segment expenses. Our radio segment expenses increased \$0.3 million or 5%, mainly due to an increase the acquisition of digital programming costs. The television segment expenses increased by less than \$0.1 million or 2% primarily due increases in originally produced content offset by reduction in fiber charges.

Selling, General and Administrative Expenses

The decrease in our consolidated selling, general and administrative expenses of \$1.1 million or 7% was due to the decreases in both our radio and television segments' expenses. Our radio segment expenses decreased \$0.9 million or 6%, mainly due to decreases in commissions, advertising, promotion and prize expenses, affiliate compensation, bad debt and facilities expenses offset by increases in rating service and special events expenses. Our television segment expenses decreased \$0.2 million or 13%, primarily due to decreases in professional fees and barter expenses.

Corporate Expenses

The decrease in corporate expenses of \$0.4 million or 13% was mostly due to a decrease in professional fees offset by an increase in compensation and benefits, and stock-based compensation.

Impairment Charges and Restructuring Costs

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

Operating Income

The increase in operating income of \$1.1 million or 13% was primarily due to the decrease in net revenues offset by the decrease in operating expenses and the prior period recognition of an impairment of our FCC license.

Income Tax Expense

The decrease in income tax expense of \$1.9 million was primarily a result of recording a valuation allowance on a deferred tax asset related to our Puerto Rico subsidiary in the prior year.

Net Loss

The decrease in net loss was primarily due to the increased operating income and decrease in income tax expense.

Comparison Analysis of the Operating Results for the Nine-Months Ended September 30, 2016 and 2015

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

	Nine-Months Ended September 30,	
	2016	2015
Net revenue:		
Radio	\$ 92,009	97,195
Television	10,499	9,428
Consolidated	<u>\$ 102,508</u>	<u>106,623</u>
Engineering and programming expenses:		
Radio	\$ 17,997	17,113
Television	5,587	5,984
Consolidated	<u>\$ 23,584</u>	<u>23,097</u>
Selling, general and administrative expenses:		
Radio	\$ 37,515	42,716
Television	5,129	4,202
Consolidated	<u>\$ 42,644</u>	<u>46,918</u>
Corporate expenses:	<u>\$ 8,047</u>	<u>7,442</u>
Depreciation and amortization:		
Radio	\$ 1,420	1,363
Television	1,815	1,977
Corporate	313	282
Consolidated	<u>\$ 3,548</u>	<u>3,622</u>
(Gain) loss on the disposal of assets, net:		
Radio	\$ (3)	(68)
Television	—	2
Corporate	—	(11)
Consolidated	<u>\$ (3)</u>	<u>(77)</u>
Impairment charges and restructuring costs:		
Radio	\$ —	925
Television	—	—
Corporate	(26)	(327)
Consolidated	<u>\$ (26)</u>	<u>598</u>
Operating income (loss):		
Radio	\$ 35,080	35,146
Television	(2,032)	(2,737)
Corporate	(8,334)	(7,386)
Consolidated	<u>\$ 24,714</u>	<u>25,023</u>

The following summary table presents a comparison of our results of operations for the nine-months ended September 30, 2016 and 2015 (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,	
	2016	2015
Net revenue	\$ 102,508	106,623
Engineering and programming expenses	23,584	23,097
Selling, general and administrative expenses	42,644	46,918
Corporate expenses	8,047	7,442
Depreciation and amortization	3,548	3,622
(Gain) loss on disposal of assets, net of disposal costs	(3)	(77)
Impairment charges and restructuring costs	(26)	598
Operating income	24,714	25,023
Interest expense, net	(30,109)	(29,879)
Dividends on Series B preferred stock classified as interest expense	(7,300)	(7,300)
Income tax expense	7,162	7,736
Net loss	<u>\$ (19,857)</u>	<u>(19,892)</u>

Net Revenue

The decrease in our consolidated net revenues of \$4.1 million or 4% was due to decreases in our radio segment offset by an increase in our television segment net revenues. Our radio segment net revenues decreased \$5.2 million or 5%, due to decreases in national, network, barter, special events and internet revenue, which were partially offset by an increase in local sales. Our local sales increased in our Los Angeles, New York, Miami and San Francisco markets, while our national sales decreased in our Chicago, New York, Miami and San Francisco markets. Our special events revenue decreased in our Los Angeles, New York, Miami, and Puerto Rico markets due to a decrease in scheduled events. Our television segment net revenues increased \$1.1 million or 11%, due to the increases in national, local and barter sales.

Engineering and Programming Expenses

The increase in our consolidated engineering and programming expenses of \$0.5 million or 2% was primarily due to the increase in our radio segment expenses offset by a decrease in our television segment expenses. Our radio segment expenses increased \$0.9 million or 5%, mainly due to an increase transmission facility related taxes and the acquisition of digital programming content offset by decrease in compensation and talent costs. This increase was offset by a decrease in our television segment expenses of \$0.4 million or 7% related to reductions of acquired and originally produced programming costs.

Selling, General and Administrative Expenses

The decrease in our consolidated selling, general and administrative expenses of \$4.3 million or 9% was due to the decreases in our radio segment expenses offset by increases in our television segment expenses. Our radio segment expenses decreased \$5.2 million or 12%, mainly due to decreases in special events, facilities, commissions, personnel compensation and benefits, and bonus expenses, which were offset by increases in rating services and professional fees. Our television segment expenses increased \$0.9 million or 22%, primarily due to increases in commissions, rating services, bad debt and barter expenses offset by decreases in special event expense and professional fees.

Corporate Expenses

The increase in corporate expenses of \$0.6 million or 8% was mostly due to an increase in compensation and benefits, and stock-based compensation offset by a decrease in professional fees.

Impairment Charges and Restructuring Costs

The decrease in impairment charges and restructuring costs of \$0.6 million was primarily due to an impairment of our San Francisco market FCC broadcasting license in the prior period.

Operating Income

The decrease in operating income of \$0.3 million or 1% was primarily due to the decrease in net revenues offset by the decrease in operating expenses and the prior period recognition of an impairment of our FCC license.

Income Tax Expense

The decrease in income tax expense of \$0.6 million was primarily a result of the tax amortization on some of our indefinite-lived intangible assets that did not have any valuation allowance and recording a valuation allowance on a deferred tax asset related to our Puerto Rico subsidiary in the prior year.

Net Loss

The decrease in net loss was primarily due to the decreased operating income offset by the decrease 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, 2016, we had a working capital deficit due primarily to three events, the reclassification of our Series B Preferred Stock as a current liability, the reclassification of our 12.5% Senior Secured Notes as a current liability, and the final payment on our promissory note relating to the acquisition of the Miami studio building being reclassified as a current liability. 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. If we are successful in repaying or refinancing our 12.5% Senior Secured Notes, and are able to generate legally available funds under Delaware law, we may be required to pay all or a portion of the accumulated preferred dividends and redeem all or a portion of the Series B Preferred Stock, to extent of the funds legally available.

The 12.5% Senior Secured Notes (the "Notes") have a maturity date of April 15, 2017. We have engaged financial advisors to assist us in developing a comprehensive refinancing strategy that considers all of the Company's obligations under its debt and capital structure. Additionally, we are participating in the Broadcast Incentive Auction and evaluating the potential monetization of our television spectrum and other assets to generate cash proceeds that would be used to repay our outstanding notes in accordance with the Indenture.

The inability of the Company to repay, refinance and/or restructure its short term obligations could result in significant liquidity requirements on the company. As there can be no assurance, at this time, that we will be able to successfully implement our strategy, the conditions or events raise substantial doubt about the Company's ability to continue as a going-concern. The financial statements do not include adjustments, if any, that might arise from the outcome of this uncertainty.

We believe we will have sufficient cash on hand to make the final payment on the promissory note relating to the acquisition of the Miami studio building.

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 ordinary course operating 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 ordinary course operating obligations over the next twelve-month period, including, among other things, required semi-annual interest payments pursuant to the Notes and capital expenditures. Cash from operating activities will not be sufficient to repay the Notes at their maturity date or to redeem the Series B Preferred Stock.

Assumptions (none of which can be assured) which underlie management's beliefs with respect to operating activities, 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 our 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. The Notes mature in April of 2017. Cash from operating activities will not be sufficient to repay the Notes. We have engaged financial advisors to assist us in developing a comprehensive refinancing strategy that considers all of the Company's obligations under its debt and capital structure. Additionally, we are participating in the Broadcast Incentive Auction and evaluating the potential monetization of our television spectrum and other assets to generate cash proceeds that would be used to repay our outstanding notes in accordance with the Indenture. The inability of the Company to repay, refinance and/or restructure its short term obligations could result in significant liquidity requirements on the company. As there can be no assurance that we will be able to successfully implement our strategy, this condition raises substantial doubt about the Company's ability to continue as a going-concern.

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), (6), (7), and (8) 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 10 of the Notes 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 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, 2016, 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, 2016 and 2015, 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		Change
	September 30,		
	2016	2015	\$
Capital expenditures:			
Radio	\$ 1,371	698	673
Television	513	477	36
Corporate	246	209	37
Consolidated	<u>\$ 2,130</u>	<u>\$ 1,384</u>	746
Net cash flows provided by operating activities	\$ 12,237	5,860	6,377
Net cash flows used in investing activities	(4,027)	(1,305)	(2,722)
Net cash flows used in financing activities	(230)	(254)	24
Net (decrease) increase in cash and cash equivalents	<u>\$ 7,980</u>	<u>4,301</u>	

Capital Expenditures

The increase in our capital expenditures was primarily due to on-going development of the LaMusica digital application.

Net Cash Flows (Used In) Provided by Operating Activities

Changes in our net cash flows from operating activities were primarily a result of increased receivable collections offset by payments issued towards reducing payables and accruals.

Net Cash Flows (Used in) Provided by Investing Activities

Changes in our net cash used in investing activities were primarily a result of the cash used to acquire spectrum related assets in Puerto Rico and the ongoing development of the LaMusica digital platform.

Net Cash Flows (Used in) Provided by Financing Activities

Changes in our net cash used in from financing activities were a result of having eliminated certain leases that were present in the prior year.

Recent Developments

Employees

In July 2016, SAG-AFTRA was certified as the exclusive bargaining agent solely for the on-air talent employees of our Los Angeles-based stations KXOL and KLAX. We have been negotiating with representatives of SAG-AFTRA for a collective bargaining agreement which would cover those employees. We have not yet reached an agreement with SAG-AFTRA and do not know if or when we will be able to reach such an agreement.

Related Party Transaction – Stock Purchase Agreement

On August 8, 2016 CBS Radio entered into a Stock Purchase Agreement with the Company, AAA Trust and Mr. Alarcón (the “Stock Purchase Agreement”) to sell and assign its rights related to its 380,000 shares of Series C preferred stock to the AAA Trust for \$3.8 million. AAA Trust is a Florida trust, of which Mr. Alarcón is the trustee. Pursuant to the Stock Purchase Agreement, CBS Radio has agreed to assign the rights under the registration rights agreement and Stockholder Agreement to AAA Trust. The parties closed on the Stock Purchase Agreement on August 18, 2016.

NASDAQ Listing

On January 28, 2016, we received a written deficiency notice (the “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 been below the minimum \$15,000,000 required for continued listing on the NASDAQ Global Market pursuant to NASDAQ Listing Rule 5450 (b)(3)(C) (the “Rule”).

Pursuant to NASDAQ Listing Rule 5810(c)(3)(D) (the “Listing Rule”), we are provided an initial grace period of 180 calendar days, or until July 26, 2016, to regain compliance with the Rule. The Notice further provided that NASDAQ would provide written confirmation stating that SBS had achieved compliance with the rule if at any time before July 26, 2016, the market value of its publicly held shares closed at \$15,000,000 or more for a minimum of 10 consecutive business days.

We did not regain compliance with the rule by July 26, 2016 and received a letter from NASDAQ stating that unless we request an appeal, our Class A Common Stock will be scheduled for delisting at the opening of business on August 5, 2016. On August 3, 2016, we filed a request for a hearing to appeal the delisting. The hearing occurred on September 8, 2016.

On September 17, 2016, the Company received written notification from NASDAQ, dated September 12, 2016, granting the Company’s request to continue the listing of its shares on the NASDAQ Global Market until January 23, 2017. NASDAQ has required that, during this exception period, the Company provide prompt notification of any significant events that occur during this time which may call into question the Company’s ability to demonstrate compliance with the Rule.

The Company intends to use all reasonable efforts to maintain the listing of its common stock on the NASDAQ Global Market, but there can be no assurance that the Company will regain compliance with the Rule. If the Company does not regain compliance with the Rule by January 23, 2017, the NASDAQ Hearings Panel will issue its final determination to delist the Company’s shares and suspend trading on the NASDAQ Stock Market effective on the second business day from the date of the final determination. If we do not regain compliance with the rule by January 23, 2017, we intend to apply for listing on the OTC Market if it is determined that the Company’s shares will be suspended from trading and delisted from the NASDAQ Stock Market.

Local Tax Assessment

The company has received an audit assessment (the “Assessment”) wherein it was proposed that the Company underpaid a local tax for the tax periods between June 1, 2005 and May 31, 2015 totaling \$1,439,452 in underpaid tax, applicable interest and penalties. The Company disagrees with the assessment and related calculations but is developing a settlement strategy to discuss and pursue with the taxing jurisdiction with the hope of avoiding a lengthy litigation process. While we are uncertain as to whether the jurisdiction will accept this offer, an accrual of \$391,000, based upon our current best estimate of probable loss, was charged to operations in the accompanying financial statements. However, if the settlement offer is not accepted by the jurisdiction, the amount of the ultimate loss to the Company, if any, may equal the entire amount of the Assessment sought by the taxing jurisdiction.

FCC Broadcast Incentive Auction

We have filed applications to participate in the FCC’s television spectrum incentive auction with television stations in Miami, Houston, and Puerto Rico to potentially generate cash proceeds that are expected to be created by the auction process. There can be no assurance that the FCC’s television spectrum incentive auction will be successfully completed and any potential cash proceeds will be subsequently realized.

Exchange of Stations in Puerto Rico

On January 4, 2016, the Company completed an asset exchange with International Broadcasting Corp. under which the Company agreed to exchange certain assets used or useful in the operations of WIOA-FM, WIOC-FM, and WZET-FM in Puerto Rico for certain assets used or useful in the operations of WTCV (DT), WVEO (DT), and WVOZ (TV) in Puerto Rico previously owned and operated by International Broadcasting Corp. The asset exchange is further discussed in note 11 of the Notes to the Unaudited Condensed Consolidated Financial Statements.

Off-Balance Sheet Arrangements

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

Recently Issued Accounting Pronouncements

In August 2016, the FASB issued ASU No. 2016-15, *Statements of Cash Flows (Topic 230)*. This new standard's objective is to clarify how companies present and classify certain cash receipts and cash payments in the statement of cash flows. This update is effective on a retrospective basis for annual and interim periods beginning after December 15, 2017 with early adoption permitted. We are currently evaluating the impact, if any, that this new standard will have on our consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-09, *Compensation – Stock Compensation (Topic 718)*. This new standard's objective is to simplify certain aspects of the accounting for share-based payment award transactions, including (i) income tax consequences, (ii) classification of awards as either equity or liabilities, and (iii) classification on the statement of cash flows. This update is effective on a prospective, retrospective, and modified retrospective basis for annual and interim periods beginning after December 15, 2016 with early adoption permitted. We will adopt this accounting standard update effective January 1, 2017 and are currently evaluating the impact of the provisions of this update. We do not expect this update to have a material impact on our consolidated financial statements; however, our initial assessment is subject to change.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. This new standard requires organizations that lease assets to recognize on the balance sheet the lease assets and lease liabilities for the rights and obligations created by those leases and disclose key information about the leasing agreements. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new guidance is effective for financial statements issued for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted as of the beginning of an interim or annual reporting period and must be adopted using a modified retrospective approach for leases that exist or are entered into after the beginning of the earliest comparative period in the financial statements. We are currently evaluating the impact that this new standard will have on our financial position and related disclosures and expect the impact on our assets and liabilities will be material due to the addition of right-of-use assets and lease liabilities; however the impact cannot currently be quantified.

In January 2016, the FASB issued ASU No. 2016-01, *Accounting for Financial Instruments – Recognition and Measurement*. The new guidance changes how entities measure equity investments and present changes in the fair value of financial liabilities. The new guidance requires entities to measure equity investments that do not result in consolidation and are not accounted under the equity method at fair value and recognize any changes in fair value in net income unless the investments qualify for the new practicality exception. A practicality exception will apply to those equity investments that do not have a readily determinable fair value and do not qualify for the practical expedient to estimate fair value and as such these investments may be measured at cost. The new guidance is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. We are currently evaluating the impact, if any; however, we do not expect this update to have a material impact on our financial position and results of operations.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. 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. In May 2016, the FASB issued accounting standards updates to address implementation issues and to clarify the guidance for identifying performance obligations, licenses, and determining if a company is the principal or agent in a revenue arrangement. The Company currently expects to adopt the new revenue standard in its first quarter of 2018 and continues to evaluate the method of adoption and the impact of the provisions on our financial position and results of operations, if any. We do not expect this update to have a material impact on our financial position or results of operations; however, our initial assessment is subject to change.

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, 2015. There have been no material changes to our critical accounting policies during the nine-months ended September 30, 2016.

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

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

Item 4. *Controls and Procedures*

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

Changes In Internal Control Over Financial Reporting. There has been no change in our internal control over financial reporting during the quarter ended September 30, 2016 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II—OTHER INFORMATION

Item 1A. *Risk Factors*

Impending Maturity of our Notes

Our Notes mature on April 15, 2017. We do not currently have sufficient cash on hand and we do not expect to generate sufficient cash from operations to repay the Notes at maturity. We have engaged financial advisors to assist us in developing a comprehensive refinancing strategy that considers all of the Company’s obligations under its debt and capital structure. Additionally, we are participating in the Broadcast Incentive Auction and evaluating the potential monetization of our television spectrum and other assets to generate cash proceeds that would be used to repay our outstanding notes in accordance with the Indenture. There can be no assurance that we will be able to successfully implement our strategy. Our failure to do so could result in a default under the Notes and raise substantial doubt about our ability to continue as a going concern.

Item 6. Exhibits

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

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

* Filed herewith

** Furnished herewith

SIGNATURES

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

SPANISH BROADCASTING SYSTEM, INC.

By: /s/ JOSEPH A. GARCÍA

JOSEPH A. GARCÍA

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

Date: November 14, 2016

EXHIBIT INDEX

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101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document
*	Filed herewith
**	Furnished herewith

CERTIFICATION

I, Raúl Alarcón, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Spanish Broadcasting System, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal controls over financial reporting, or caused such internal control over financial reporting to be designed under our supervision to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

By: /s/ RAÚL ALARCÓN

Name: Raúl Alarcón

Title: Chairman of the Board of Directors, Chief Executive Officer
and President

Date: November 14, 2016

CERTIFICATION

I, Joseph A. García, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Spanish Broadcasting System, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal controls over financial reporting, or caused such internal control over financial reporting to be designed under our supervision to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

By: /s/ JOSEPH A. GARCÍA

Name: Joseph A. García

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

Date: November 14, 2016

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

In connection with the Quarterly Report on Form 10-Q of Spanish Broadcasting System, Inc. (the “Company”) for the quarterly period ended September 30, 2016, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Raúl Alarcón, Chairman of the Board of Directors, President and Chief Executive Officer of the Company, certify, as of the dates hereof, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company at the dates and for the periods indicated.

/s/ RAÚL ALARCÓN

Name: Raúl Alarcón

Title: Chairman of the Board of Directors,
President and Chief Executive Officer

Date: November 14, 2016

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

In connection with the Quarterly Report on Form 10-Q of Spanish Broadcasting System, Inc. (the “Company”) for the quarterly period ended September 30, 2016, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Joseph A. García, Chief Financial Officer, Executive Vice President and Secretary of the Company, certify, as of the dates hereof, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company at the dates and for the periods indicated.

/s/ JOSEPH A. GARCÍA

Name: Joseph A. García

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

Date: November 14, 2016