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April 28, 2014

Via Courier

Ms. Marlene Dortch
Office of the Secretary
Federal Communications Commission
445 Twelfth Street, SW
Washington, DC 20554

Attn: Disability Rights Office, Room 3-C438

Re: CGB-CC-1333
Petition for Closed Captioning Exemption
Response to Request for Supplemental Information

Dear Ms. Dortch:

On behalf of WSBS Licensing, Inc., licensee of WSBS-TV-DT, Key West, Florida, and WSBS-CA, Miami, et al., Florida ("*WSBS Licensing*"); KTBU Licensing, Inc., licensee of KTBU(DT), Conroe, Texas ("*KTBU Licensing*"); and Mega Media Holdings, Inc., owner of the MegaTV television programming network ("*MMHI*"), this letter responds to the March 28, 2014 letter request for supplemental information in connection with the above-referenced Petition for Exemption of the closed captioning requirements (the "*Letter Request*"). WSBS Licensing, KTBU Licensing and MMHI are all subsidiaries of Spanish Broadcasting System, Inc. ("*SBS*"). The Letter Request required that supplemental financial information be filed by April 28, 2014; accordingly, this Response is timely filed.

The Letter Request requested that SBS file audited financial statements for the two most recent completed calendar or fiscal years. Accordingly, submitted herewith are the following documents:

1. <u>2012 Form 10-K</u> (Annual Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934) filed with the United States Securities and Exchange Commission for the fiscal year ended December 31, 2012 for Spanish Broadcasting System, Inc.

2. 2012 Form 10-K/A (Amendment No. 1 to Annual Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934) filed with the United States Securities and Exchange Commission for the fiscal year ended December 31, 2012 for Spanish Broadcasting System, Inc.

3. 2013 Form 10-K (Annual Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934) filed with the United States Securities and Exchange Commission for the fiscal year ended December 31, 2013 for Spanish Broadcasting System, Inc.

Please note that the foregoing documents have been certified by the Chief Executive Officer and Chief Financial Officer of SBS pursuant to Section 302 of the Sarbanes-Oxley Act of 2002; accordingly, official notice may be taken and no additional affidavit or declaration is included. Should the Commission need an additional affidavit or declaration, please contact the undersigned counsel.

Please date stamp the enclosed "Return Copy" of this filing and return it to the courier delivering the package. If you have any questions, please contact the undersigned counsel.

Respectfully submitted,

Nancy A. Ory

Nancy A. Ory
Counsel to Spanish Broadcasting System, Inc.

Enclosures

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

(Mark One)

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

For the fiscal year ended December 31, 2012

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 or incorporation of organization)	**13-3827791** (I.R.S. Employer Identification No.)
7007 NW 77th Avenue **Miami, Florida** (Address of principal executive offices)	**33166** (Zip Code)

Registrant's telephone number, including area code: (305) 441-6901

Former name, former address and former fiscal year, if changed since last report: None

Securities registered pursuant to Section 12(b) of the Act: None

Title of Each Class	Name of Each Exchange on Which Registered
Class A common stock, par value $0.0001 per share	**The NASDAQ Global Market**

Securities registered pursuant to Section 12(g) of the Act:

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act Yes ☐ No ☒

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 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a nonaccelerated 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 ☐
Nonaccelerated filer ☐	Smaller reporting company ☒

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

As of June 30, 2012, the last business day of the registrant's most recently completed second fiscal quarter, the registrant had 4,166,991 shares of Class A common stock, par value $0.0001 per share (Class A common stock), and 2,340,353 shares of Class B common stock, par value $0.0001 per share (Class B common stock), outstanding. As of June 30, 2012, the aggregate market value of the Class A common stock held by nonaffiliates of the registrant was approximately $16.8 million and the aggregate market value of the Class B common stock held by nonaffiliates of the registrant was approximately $1,421. We calculated the aggregate market value based upon the closing price of our Class A common stock reported on the NASDAQ Global Market on June 29, 2012 of $4.06 per share, and we have assumed that our shares of Class B common stock would trade at the same price per share as our shares of Class A common stock. (For purposes of this paragraph, directors and executive officers have been deemed affiliates.)

As of March 21, 2013, 4,166,991 shares of Class A common stock, 2,340,353 shares of Class B common stock and 380,000 shares of Series C convertible preferred stock, $0.01 par value per share (Series C preferred stock), which are convertible into 760,000 shares of Class A common stock, were outstanding.

Documents Incorporated by Reference:

Certain information required by Part III of this Annual Report on Form 10-K is incorporated by reference from the registrant's definitive proxy statement (the Proxy Statement) to be filed pursuant to Regulation 14A with respect to the registrant's 2013 annual meeting of stockholders. Except with respect to information specifically incorporated by reference in this Annual Report on Form 10-K, the Proxy Statement is not deemed to be filed as part hereof.

Table of Contents

Special Note Regarding Forward-Looking Statements

CAUTIONARY STATEMENT FOR PURPOSES OF THE "SAFE HARBOR" PROVISIONS OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995.

This annual report on Form 10-K 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).

Spanish Broadcasting System, Inc. intends such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995, and includes this statement for purposes of such safe harbor provisions.

"Forward-looking" statements, as such term is defined by the Securities Exchange Commission (the Commission) in its rules, regulations and releases, represent our expectations or beliefs, including, but not limited to, statements concerning our operations, economic performance, financial condition, growth and acquisition strategies, investments and future operational plans, such as those disclosed under the caption "Risk Factors" appearing in Item 1A of Part I of this Report. For this purpose, any statements contained herein that are not statements of historical fact may be deemed to be forward-looking statements. Without limiting the generality of the foregoing, words such as "may," "will," "expect," "believe," "anticipate," "intend," "forecast," "seek," "plan," "predict," "project," "could," "estimate," "might," or "continue" or the negative or other variations thereof or comparable terminology are intended to identify forward-looking statements.

These statements, by their nature, involve substantial risks and uncertainties, certain of which are beyond our control, and actual results may differ materially depending on a variety of important factors, including uncertainty related to acquisitions, governmental regulation and any other factors discussed in our filings with the Commission and we do not have any obligation to publicly update any forward-looking statements to reflect subsequent events or circumstances. *See Item 1A. Risk Factors.*

PART I

Item 1. Business

Our Company

All references to "we", "us", "our", "SBS", "our company" or "the Company" in this report mean Spanish Broadcasting System, Inc., a Delaware corporation formed in 1994, and all entities owned or controlled by Spanish Broadcasting System, Inc. and, if prior to 1994, mean our predecessor parent company Spanish Broadcasting System, Inc., a New Jersey corporation, and its subsidiaries. Our executive offices are located at 7007 N.W. 77th Avenue, Miami Florida 33166, our telephone number is (305) 441-6901, and our corporate website is www.spanishbroadcasting.com.

We are a leading Spanish-language media and entertainment company with radio or television stations in the top seven U.S. Hispanic markets, including Puerto Rico, ranked by purchasing power. Our radio stations serve markets representing approximately 40% of the U.S. Hispanic population, and our television operations serve markets representing over 3.5 million Hispanic households. We produce and distribute Spanish-language content, including radio programs, television shows, music and live entertainment through our 21 radio stations and our television group, MegaTV, which produces over 50 hours of original programming per week. MegaTV broadcasts via our owned and operated stations in South Florida and Houston and through distribution agreements with other stations, including nationally on a subscriber basis. We also own 21 bilingual websites, including www.lamusica.com, Mega.tv and various station websites. 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.

We operate three of the top six Spanish-language radio stations in the United States based on the average number of listeners per quarter-hour, including our New York station (WSKQ-FM), which delivered the highest listenership among all Spanish-language radio stations in the United States, according to the 2012 Hispanic Fact Pack. Our radio stations are located in Los Angeles, New York, Puerto Rico, Miami, Chicago and San Francisco.

U.S. Hispanic population rank (1)	Our radio market	2012 Hispanic population in market (in millions) (1)(2)	2012 Total population in market (in millions) (1)(2)	Percentage of total market population that is Hispanic (1)(2)	Percentage of total U.S. Hispanic population (1)(2)	Number of radio stations we operate in the market
1	Los Angeles	7.9	17.6	45%	14%	2
2	New York	4.7	21.1	22	9	2
3	Puerto Rico	3.7	3.7	99	7	11
5	Miami	2.1	4.4	48	4	4
6	Chicago	2.0	9.8	21	4	1
8	San Francisco	1.6	7.0	24	3	1
Total		22.0	63.6	35%	40%	21

(1) Based on 2012 Hispanic Fact Pack and Ipsos U.S. Diversity Market Report 2012.

(2) Estimates for Puerto Rico taken from 2012 Population Estimates, United States Census Bureau, Population Division, December 2012.

Our Strategy

We focus on maximizing the revenue and profitability of our broadcast portfolio by strengthening the performance of our existing broadcast stations. We evaluate strategic media acquisitions and/or dispositions and strive to expand our media content through distribution and affiliations in order to achieve a significant presence with clusters of stations in the top U.S. Hispanic markets. We generally consider acquisitions and the expansion of the number of broadcast stations in markets where we can maximize our revenue through aggressive sales and programming efforts directed at U.S. Hispanic and general market advertisers. The potential acquisitions and expansion may include broadcast stations which do not currently target the U.S. Hispanic market, but which we believe can successfully be reformatted and programmed. We also focus on long-term growth by investing in on-air talent, advertising and, from time to time, programming research. Additionally, from time to time, we explore investment opportunities in related media outlets targeting the U.S. Hispanic market.

Our operating strategy focuses on maximizing our broadcast stations' appeal to our targeted audiences and advertisers in order to increase revenue and cash flow, while simultaneously controlling operating expenses. To achieve these goals, we focus on a number of key factors.

Develop Market Leading Station Clusters in High Growth Hispanic Markets. We believe Hispanic media will gain revenue share as a result of the growing U.S. Hispanic population and purchasing power. Given our knowledge of, and experience with, the U.S. Hispanic marketplace and our established position in the top seven U.S. Hispanic markets, including Puerto Rico, ranked by purchasing power, we will continue to focus on reaching, and maximizing revenue in, high growth Hispanic markets. We believe that operating multiple stations in the same markets enables us to achieve operating efficiencies and cost savings. We pursue a strategy of creating broadcast station clusters that reach a critical mass of our target audience and marketing resources necessary to aggressively pursue incremental advertising revenue.

Leverage Our Proprietary Content Across Our Media Platforms. We will continue to monetize our content across multiple platforms, including radio, broadcast and pay television and live events, as well as emerging media alternatives. We use our media platforms and relationships with Hispanic celebrities and talent to produce unique programming and content for our television and radio stations. Concerts and special promotional appearances form an important part of our marketing strategy and provide us with significant local market exposure. We also develop content from these events and create opportunities to sell, market and distribute that content through our websites and other media, providing our advertising partners with attractive advertising solutions. In addition, the events allow us to promote our brands to increase our radio audience and advertising revenue. As the media landscape evolves, we are developing our key broadcast programs, on-air personalities and brands for consumption as downloadable video and interactive content.

Maintain Cost Discipline. We employ a regimented managerial approach to operating our media outlets. We emphasize control of our operating costs through detailed budgeting, continuous review of staffing levels and expenses and vendor analysis. During the recent economic downturn, we were highly focused on reducing our costs and believe we have significantly streamlined our cost structure to provide a foundation for growth.

Grow Our Television Business. Television is the largest Hispanic media market in the United States, with approximately 69.2% of the total U.S. Hispanic advertising spending. In 2011 the U.S. Hispanic television industry generated $4.9 billion of revenue, according to the 2012 Hispanic Fact Pack. Our radio stations and experience in the Hispanic media and radio market in the United States and Puerto Rico give us a powerful platform, knowledge base and set of relationships on which to build our growing television business. We utilize our market knowledge to create distinctive television programs tailored to our target audiences' preferences. We believe that MegaTV will capitalize on these insights as the reach of our television programming continues to grow. Additionally, our television business offers attractive cross-promotional opportunities with our radio stations.

Maintain Strong Community Involvement. We have been, and will continue to be, actively involved in the local communities that we serve. Our broadcast stations participate in numerous community programs, fundraisers and activities benefiting the local community and Hispanics abroad. Examples of our community involvement include free public service announcements, free events designed to promote family values within the local Hispanic communities, extensive coverage of world events that have an impact on the U.S. Hispanic population as well as charitable contributions to organizations that benefit the local Hispanic communities in which we operate. Our community involvement also allows us to keep abreast of shifting audience preferences, to further tailor our content and to enhance broadcast station loyalty.

Hispanic Market Opportunity

The U.S. Hispanic population is the largest ethnic minority group and is projected to be the fastest growing segment of the population, according to the Ipsos U.S. Diversity Markets Report 2012. We believe that we are well positioned to benefit from the projected growth in population and purchasing power of the U.S. Hispanic population and the expected shift of advertising dollars to Hispanic media. We believe that targeting the Hispanic market is attractive for the following reasons:

- *Hispanic Population Growth.* Between 2000 and 2012, the U.S. Hispanic population increased by 45.8%, compared to 6.1% for the non-Hispanic population. In 2012, Hispanics comprised 16.5% of the U.S. population and approximately one out of every six individuals living in the United States was of Hispanic origin. The U.S. Hispanic population grew at more than seven times the rate of the general population from 2000 to 2012 and is projected to grow to 30% of the U.S. population by 2050, according to the U.S. Census Bureau.

- *Growth in Hispanic Purchasing Power*. The U.S. Hispanic population accounted for over $1.2 trillion of total purchasing power in 2012, which is estimated to grow to $1.7 trillion by 2017, according to the Selig Center for Economic Growth, *The Multicultural Economy*, 2012. U.S. Hispanic purchasing power increased by 16.2% since 2010 and accounted for 9.7% of all U.S. purchasing power in 2012. By 2017, Hispanics will account for 11.1% of total U.S. buying power.
- *Spanish-Language Advertising Spending*. Advertisers spent an estimated $7.1 billion on Spanish-language media advertising in 2011, according to the 2012 Hispanic Fact Pack. This amount has more than tripled since 2000 when Hispanic advertising expenditures totaled $2.1 billion according to Hispanic Business Magazine, December 2001. As advertisers increasingly recognize the purchasing power of the U.S. Hispanic population, especially in markets with high Hispanic concentration, we believe that Spanish-language advertising will continue to increase.
- *Re-balancing of Advertising Spending Towards Hispanic Media*. While U.S. Hispanic purchasing power represented 9.7% of the total U.S. purchasing power in 2012, approximately 5% of advertising spending is directed toward U.S. Hispanic media. As advertisers seek to tap the large and growing Hispanic market, we believe they will allocate additional advertising dollars to the Hispanic market. We believe we are well positioned to capitalize on the growing Hispanic advertising market given our attractive position in the top seven U.S. Hispanic markets, including Puerto Rico, ranked by purchasing power.

The above market opportunity information is based on data provided by the Ipsos U.S. Diversity Markets Report 2012, the 2012 Hispanic Fact Pack, the Selig Center for Economic Growth, *The Multicultural Economy*, 2012 and the Kantar Media Report March 2012.

Our Strengths

***Strong Presence in Largest U.S. Hispanic Markets*.** We operate in the top seven U.S. Hispanic markets ranked by purchasing power, estimated to represent approximately 35% of U.S. Hispanic purchasing power in 2012 (for Puerto Rico, based on GDP purchasing power parity data): Los Angeles, New York, Puerto Rico, Miami, San Francisco, Chicago and Houston. We operate three of the top six Spanish-language radio stations across the United States. Our New York station (WSKQ-FM) ranks first among Spanish-language stations. The Los Angeles and New York markets, where we consistently have a top-three-rated Spanish-language radio station, have the largest and second largest U.S. Hispanic populations, respectively. New York and Los Angeles are also the largest and second largest overall radio markets in the United States measured by advertising revenue. In addition, MegaTV serves markets representing over 3.5 million Hispanic households.

***Strong Portfolio of Branded Media Franchises*.** Because of our history with Hispanic-focused media, we believe that we have been able to develop strong relationships with the Hispanic audiences in our markets and create strong brand loyalty. Our listeners enjoy music from popular and emerging artists as well as updated local information on weather, news and general entertainment. As an example of the power of our brand, our New York station (WSKQ-FM) delivered the highest listenership among all Spanish-language radio stations in the United States, according to the 2012 Hispanic Fact Pact. Our live concerts and events provide our advertisers additional opportunities to reach their target audiences as well as allow us to cross-promote our brands and diversify our revenue base.

***Diversification Across Media Platforms, Geography and Customers*.** Our programming reaches audiences across U.S. Hispanic communities and across various media distribution platforms. We sell our advertising time both nationally and locally and generate substantially all of our revenue from the sale of advertising time to a broad and geographically diverse customer base. The diversification of our stations across several local markets helps to mitigate any revenue decline in a specific geographic area. Additionally, in 2012, no single advertiser generated more than 5% of our consolidated revenue. Our advertisers include advertisers in the automotive, retail, telecommunications and healthcare industries, among others. In addition to advertising revenue, we also generate subscription and retransmission fee revenue from MegaTV.

Attractive Business Model. Our strong margins and low levels of capital expenditures enable us to generate high levels of cash flows from operating activities. We also benefit from an attractive cost structure that provides significant operating leverage while allowing us ongoing operating flexibility.

Experienced Management Team. Led by Raúl Alarcón, our Chairman, Chief Executive Officer and President, our senior management team has, on average, over 20 years of experience in the broadcasting sector. Importantly, the Alarcón family has been involved in Spanish-language radio broadcasting since the 1950s, when the late Mr. Pablo Raúl Alarcón, Sr., our former Chairman Emeritus, established his first radio station in Camagüey, Cuba. We believe that our experienced management team gives us a unique understanding of the various Hispanic ethnic and cultural subgroups and allows us to effectively tailor our broadcast programming, websites and concerts accordingly.

Recent Developments

Lehman Complaint

On February 14, 2013, Lehman Brothers Holding Inc. ("LBHI") brought a claim against us in the Delaware Court of Chancery seeking a declaratory judgment that a voting rights triggering event had occurred (as of August 1, 2011) under our Certificate of Designations for the Series B Preferred Stock (the "Certificate of Designations") as a result of our non-payment of dividends. The claim states that as a result of such voting rights triggering event, the incurrence of indebtedness for the purpose of purchasing our Houston television station and the issuance of our 12.5% Senior Secured Notes due 2017 under the Senior Secured Note Indenture were prohibited incurrences of indebtedness under the Certificate of Designations. Additionally, LBHI seeks an award of unspecified contract damages. We deny the allegations contained in the LBHI complaint and, to the contrary, assert that we have been and continue to be in full and complete compliance with all of our obligations under the Certificate of Designations, as fully disclosed in the our public filings dating back to 2009. On March 11, 2013, we filed a motion to dismiss the complaint. Accordingly, we believe that the complaint's allegations are frivolous and wholly without merit and intend to contest such allegations vigorously.

NASDAQ Delisting Letter

On October 3, 2012, we received a written deficiency notice (the "Notice") from the NASDAQ Global 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), we were provided an initial grace period of 180 calendar days, or until April 1, 2013, to regain compliance with the Rule. We did not regain compliance with the Rule by April 1, 2013. On March 29, 2013, we filed an application to be listed on the NASDAQ Capital Market. If the application is approved by NASDAQ, our Class A common stock will continue to be listed on the NASDAQ Global Market until it is switched to the NASDAQ Capital Market, which is expected to occur in April 2013. We expect the application to be approved, but there can be no guarantee that it will be. If our application is not approved, NASDAQ will provide written notification to us that our Class A common stock is subject to delisting from the NASDAQ Global Market, at which time we will have an opportunity to appeal the determination to a NASDAQ Hearings Panel.

We have not yet decided whether we would request a hearing or permit our Class A common stock to be delisted. If the Class A common stock were to be delisted, it could negatively affect the liquidity and price of the Class A common stock.

Dividend Payment on the Series B Preferred Stock

Under the terms of our Series B preferred stock, the holders of the outstanding shares of the Series B preferred stock are entitled to receive, when, as and if declared by the Board of Directors out of funds of the Company legally available therefor, dividends on the Series B preferred stock at a rate of 10 3/4% per year, of the $1,000 liquidation preference per share. All dividends are cumulative, whether or not earned or declared, and are payable quarterly in arrears on specified dividend payment dates.

In determining whether to declare and pay any prior or future cash dividends, our Board of Directors considers management's recommendation, our financial condition, as well as whether funds are legally available to make such payments and the dividend would otherwise be permitted under the Delaware General Corporate Law. In addition, there are certain covenants under the Indenture which governs our Notes that restrict our ability to pay more than one quarterly dividend every four consecutive fiscal quarters unless we have satisfied certain leverage ratios. Currently, we do not satisfy those ratios and do not expect to be able to satisfy those ratios in the near term.

On April 4, 2012, the Board of Directors declared a cash dividend for the dividend due April 15, 2012 to the holders of our Series B preferred stock of record as of April 1, 2012. The cash dividend of $26.875 per share was paid in cash on April 16, 2012.

On March 29, 2013, the Board of Directors declared a cash dividend for the dividend due April 15, 2013 to the holders of our Series B preferred stock of record as of April 1, 2013. The cash dividend of $26.875 per share is to be paid in cash on April 15, 2013.

Our Board of Directors, under management's recommendation, has previously determined that based on the circumstances at the time, among other things, the then current economic environment and our future cash requirements (and, in the case of the four most recent scheduled dividends, the restrictive covenants under the Indenture), it was not prudent to declare or pay the dividends scheduled for January 15, 2013, October 15, 2012, July 15, 2012, and January 15, 2012.

If dividends on our Series B preferred stock are in arrears and unpaid for four consecutive quarterly dividend periods, a "voting rights triggering event" will have occurred. Following the occurrence, and during the continuation, of a voting rights triggering event, holders of the Series B preferred stock will be entitled to elect two directors to newly created positions on our board of directors, and we will be subject to more restrictive 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. See Item 1A. Risk Factors for a further discussion of our Series B preferred stock, including the consequences of not paying such dividends.

Operating Segments

We report two operating segments: radio and television.

See Item 8. Financial Statements and Supplementary Data below.

Radio Overview

We operate radio stations in some of the top Hispanic markets in the United States, including Puerto Rico. We own and/or operate radio stations in Los Angeles, New York, Puerto Rico, Chicago, Miami and San Francisco. The following table sets forth certain statistical and demographic information relating to our radio markets:

U.S. Hispanic population rank (1)	Our radio market	2012 Hispanic population in market (in millions) (1)(2)	2012 Total population in market (in millions) (1)(2)	Percentage of total market population that is Hispanic (1)(2)	Percentage of total U.S. Hispanic population (1)(2)	Number of radio stations we operate in the market	2012 radio market gross revenues (in millions) (3)	U.S. market radio revenue rank (3)
1	Los Angeles	7.9	17.6	45%	14%	2	$ 745.7	1
2	New York	4.7	21.1	22	9	2	583.1	2
3	Puerto Rico	3.7	3.7	99	7	11	72.8	35
5	Miami	2.1	4.4	48	4	4	251.8	11
6	Chicago	2.0	9.8	21	4	1	482.9	3
8	San Francisco	1.6	7.0	24	3	1	278.3	6
Total		22.0	63.6	35%	40%	21	$ 2,414.6	

(1) Based on 2012 Hispanic Fact Pack and Ipsos U.S. Diversity Market Report 2012.
(2) Estimates for Puerto Rico taken from 2012 Population Estimates, United States Census Bureau, Population Division, December 2012.
(3) BIA/Kelsey's Investing in Radio Market Report 2012, 4th edition.

Radio Station Portfolio

The following is a general description of each of our markets. The market revenue information is based on data provided by BIA/Kelsey's Investing in Radio Market Report 2012, 4th edition and covers only over-the-air estimated gross revenues.

Los Angeles. The Los Angeles market is the largest U.S. radio market in terms of advertising revenue, which was projected to be approximately $745.7 million in 2012. The Los Angeles market experienced an annual radio revenue decrease of 0.6% between 2010 and 2011 and is expected to increase at an annual rate of 2.2% between 2011 and 2016.

New York. The New York market is the second largest U.S. radio market in terms of advertising revenue, which was projected to be approximately $583.1 million in 2012. The New York market experienced no change in annual radio revenue between 2010 and 2011 and is expected to increase at an annual rate of 1.9% between 2011 and 2016.

Puerto Rico. The Puerto Rico market is the thirty-fifth largest U.S. radio market in terms of advertising revenue, which was projected to be approximately $72.8 million in 2012. The Puerto Rico market experienced an annual radio revenue decrease of 0.8% between 2010 and 2011 and is expected to increase at an annual rate of 2.2% between 2011 and 2016.

Miami. The Miami market is the eleventh largest U.S. radio market in terms of advertising revenue, which was projected to be approximately \$251.8 million in 2012. The Miami market experienced an annual radio revenue decrease of 1.5% between 2010 and 2011 and is expected to increase at an annual rate of 2.7% between 2011 and 2016.

Chicago. The Chicago market is the third largest U.S. radio market in terms of advertising revenue, which was projected to be approximately \$482.9 million in 2012. The Chicago market experienced an annual radio revenue increase of 0.8% between 2010 and 2011 and is expected to increase at an annual rate of 1.9% between 2011 and 2016.

San Francisco. The San Francisco market is the sixth largest U.S. radio market in terms of advertising revenue, which was projected to be approximately \$278.3 million in 2012. The San Francisco market experienced an annual radio revenue decrease of 5.8% between 2010 and 2011 and is expected to increase at an annual rate of 1.8% between 2011 and 2016.

Radio Station Programming

We format the programming of each of our radio stations to target a substantial share of the U.S. Hispanic audience in its respective market. The U.S. Hispanic population is diverse, consisting of numerous identifiable groups from many different countries of origin and each with its own musical and cultural heritage. The music, culture, customs and Spanish dialects vary from one radio market to another. We strive to become very familiar with the musical tastes and preferences of each of the various Hispanic ethnic groups and customize our programming to match the local preferences of our target demographic audience in each market we serve. By employing listener study groups and surveys, we can respond immediately, if necessary, to any changing preferences of listeners and/or trends by refining our programming to reflect the results of our research and testing. Each of our programming formats is described below.

- ***Spanish Tropical.*** The Spanish Tropical format primarily consists of salsa, merengue, bachata and reggaeton music. Salsa is dance music combining Latin Caribbean rhythms with jazz originating from Puerto Rico, Cuba and the Dominican Republic, which is popular with the Hispanics whom we target in New York, Miami and Puerto Rico. Merengue music is up-tempo dance music originating in the Dominican Republic. Bachata is a softer tempo dance music also originating in the Dominican Republic. Reggaeton is a modern rhythmic dance genre that incorporates certain elements of hip-hop music. Reggaeton originated in Panama and Puerto Rico more than a decade ago and has evolved into a mix of Spanish- and English-language dance hall, traditional reggae, Latin pop and Spanish hip-hop.
- ***Regional Mexican.*** The Regional Mexican format consists of various types of music played in different regions of Mexico such as ranchera, norteña, banda and cumbia. Ranchera music, originating from Jalisco, Mexico, is a traditional folkloric sound commonly referred to as mariachi music. Mariachi music features acoustical instruments and is considered the music indigenous to Mexicans who live in country towns. Norteña means northern, and is representative of Northern Mexico. Featuring an accordion, norteña has a polka sound with a distinct Mexican flavor. Banda is a regional format from the state of Sinalóa, Mexico and is popular in California. Banda resembles up-tempo marching band music with synthesizers.
- ***Spanish Adult Contemporary.*** The Spanish Adult Contemporary format includes soft romantic ballads and Spanish pop music as well as international hits from Puerto Rico, Mexico, Latin America and Spain.
- ***Top 40.*** The Top 40 format consists of the most popular current Latin and English chart hits.
- ***Latin Rhythmic.*** The Hispanic Urban (Hurban) format consists of reggaeton with a mix of pop and tropical music.

- ***Cumbia and Vallenato.*** Music format consisting of tropical music genres associated with the culture and musical traditions of Colombia and its people.

The following table lists the programming formats of our radio stations and the target demographic group of each station:

Market	FM Station	Format	Target buying demographic group by age
Los Angeles	KLAX	Regional Mexican	18 – 49
	KXOL	Latin Rhythmic	18 – 34
New York	WSKQ	Spanish Tropical	18 – 49
	WPAT	Spanish Adult Contemporary	25 – 54
Puerto Rico	WMEG	Top 40	18 – 34
	WEGM	Top 40	18 – 34
	WRXD	Spanish Tropical	25 – 54
	WIOA	Spanish Adult Contemporary	18 – 49
	WIOB	Spanish Adult Contemporary	18 – 49
	WIOC	Spanish Adult Contemporary	18 – 49
	WZNT	Spanish Tropical	18 – 49
	WZMT	Spanish Tropical	18 – 49
	WZET	Spanish Tropical	18 – 49
	WODA	Latin Rhythmic	18 – 34
	WNOD	Latin Rhythmic	18 – 34
Chicago	WLEY	Regional Mexican	18 – 49
Miami	WXDJ	Spanish Tropical	18 – 49
	WCMQ	Spanish Tropical	25 – 54
	WRMA	Latin Rhythmic	18 – 49
	WRAZ(1)	Cumbia and Vallenato	18 – 49
San Francisco	KRZZ	Regional Mexican	18 – 49

(1) WRAZ-FM is operated pursuant to a local marketing agreement with South Broadcasting System, Inc. See Notes to Consolidated Financial Statements.

Our radio programming capabilities benefit from the integration and synergies of production of programming across the Company. For example, successful programming in one market can be syndicated to another market.

On-Line Properties

As part of our media operating business, we also operate SBS Interactive including LaMusica.com, Mega.tv and our radio station websites, which are bilingual (Spanish-English) websites providing content related to Latin music, entertainment, news and culture. LaMusica.com and our network of station websites generate revenue primarily from advertising and sponsorship. In addition, the majority of our station websites simultaneously stream our stations' content, which has broadened our audience reach. We hope to generate revenue from our key broadcast programs, on-air personalities and brands, which are being developed for downloadable video and interactive content use through our network website, LaMusica.com. We are also developing content from our production of musical events to create opportunities to sell, market and distribute this content through our websites and other media.

We believe that SBS Interactive, together with our broadcast portfolio, enables our audience to enjoy targeted and culturally specific entertainment options, such as concert listings, music reviews, local entertainment calendars and interactive content on popular Latin artists and entertainers. At the same time, our online properties enable our advertisers to reach their targeted Hispanic consumers through an additional and dynamic medium.

Television Overview and Programming

On March 1, 2006, we launched MegaTV, our general entertainment Spanish-language television operation. We created a unique television format which focuses on entertainment, events and variety with high-quality production. Our programming is formatted to capture shares of the Hispanic audience by focusing on our core strengths as an "entertainment" company, thus offering a new alternative compared to the traditional Latino channels. The following table sets forth demographic and statistical information with respect to our television markets, excluding cable and satellite providers, such as DirecTV, DirecTV Puerto Rico, AT&T U-Verse and Verizon Fios:

TV market revenue rank (1)	Our TV Designed Market Area (DMA)	2011 Hispanic population in market (millions) (2)	2011 total population in television market (millions) (1)	Hispanic percentage of total population in TV market (1)	2012 market TV over-the air estimated gross revenues (millions) (1)
5	Miami-Ft. Lauderdale	2.1	4.4	48.7%	$ 519.6
6	Houston	2.3	6.4	35.3	500.6
17	Orlando-Daytona Beach-Melbourne	0.7	3.8	19.2	295.6
59	Fresno	1.0	2.0	53.7	71.2
	Total in our markets	6.1	16.6	37.4%	$ 1,387.0

(1) BIA/Kelsey's Investing in Television 2012, 4th edition.

(2) Calculated by multiplying the fourth column by the fifth column.

Television Station Portfolio

The following is a general description of each of our markets. The market revenue information is based on data provided by BIA/Kelsey's Investing in Television 2012, 4th edition.

Miami. The Miami-Ft. Lauderdale market is the fifth largest U.S. television market in terms of advertising revenue, which was projected to be approximately $519.6 million in 2012. The Miami-Ft. Lauderdale market experienced an annual television revenue decrease of 5.1% between 2010 and 2011. Television revenue in the Miami-Ft. Lauderdale market is expected to increase at an annual rate of 4.9% between 2011 and 2016.

Houston. The Houston market is the sixth largest U.S. television market in terms of advertising revenue, which was projected to be approximately $500.6 million in 2012. The Houston market experienced an annual television revenue decrease of 0.9% between 2010 and 2011. Television revenue in the Houston market is expected to increase at an annual rate of 3.8% between 2011 and 2016.

Orlando. The Orlando-Daytona Beach-Melbourne market is the 17th largest U.S. television market in terms of advertising revenue, which is projected to be approximately $295.6 million in 2012. The Orlando-Daytona Beach-Melbourne market experienced an annual television revenue decrease of 18.8% between 2010 and 2011. Television revenue in this market is expected to increase at an annual rate of 5.3% between 2011 and 2016.

Fresno. The Fresno-Visalia market is the 59th largest U.S. television market in terms of advertising revenue, which is projected to be approximately $71.2 million in 2012. The Fresno-Visalia market experienced an annual television revenue decrease of 19.2% between 2010 and 2011. Television revenue in the Fresno-Visalia market is expected to increase at an annual rate of 3.3% between 2011 and 2016.

The following table lists the distribution outlets of our MegaTV programming:

Market	Station ID	Channel	Programming type
Houston, Texas	KTBU	55	Owned & Operated
Miami, Florida	WSBS	22	Owned & Operated
Orlando, Florida	WFTV	9.2	Affiliation Agreement
Fresno, California	KSDI	33.1	Affiliation Agreement
DirecTV	Satellite	405	Distribution Agreement
DirecTV-Puerto Rico	Satellite	169	Distribution Agreement
AT&T U-Verse-Nationwide	ADS/Cable	3008	Distribution Agreement
Verizon Fios	ADS/Cable	See Footnote (1)	Distribution Agreement

(1) MegaTV is distributed by Verizon Fios in Dallas/Fort Worth, TX (on channel 25), in Tampa, FL (on channel 466), in New York, New Jersey and Greenwich, CT (on channel 466) and in Los Angeles, CA (on channel 473).

Television Strategy

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. On the forefront of digital platforms, we were the first Spanish-language programmer to broadcast in 100% native High Definition (HD) in the United States and one of the first Spanish-language programmers in the United States to launch content on Video On Demand, known as VOD.

As part of our strategy, we have incorporated certain of our radio on-air personalities into our television programming, as well as including interactive elements to complement our Internet websites. We produce over 50 hours of original programming per week. Our television revenue is generated primarily from the sale of local advertising and paid programming. Advertising rates depend primarily on our ability to attract an audience in the demographic groups targeted by our advertisers, the number of stations in the market we compete with for the same audience, and the supply of and demand for television advertising time, as well as other qualitative factors. We also generate revenue from the sale of integrated sponsorships and program syndication.

Our television growth strategy is focused on selectively expanding our MegaTV operations into U.S. Hispanic markets where we do not currently have television programming distribution outlets. We continue to target fast-growing and high-density U.S. Hispanic markets, where we can maximize our revenue through aggressive and selective sales and programming efforts directed at U.S. Hispanic and general market advertisers in order to become profitable in terms of station operating income.

Our Miami facility for our media broadcast programming and production is nearly 70,000 square feet and houses the bulk of MegaTV's national and local market operations. With over 14,000 square feet of high definition (HD) TV-Studio production space, the building was remodeled to handle the majority of MegaTV's diverse original HD programming, while also accommodating outside production clients with its wide range of production capabilities, which can include anything from news to late-night variety shows with live band and studio audience. MegaTV's long-term technical design criteria for this facility placed an emphasis on streamlined production workflows and digital media management. Key technical features of this facility include:

- integrated HD/standard definition (SD) file-based content capabilities throughout our studio, post production and master control areas;

- three HD studio production spaces that can be operated independently or combined;
- two fully equipped HD control rooms with server, editing and mastering capabilities;
- 14 HD/SD post production editing suites that include advanced technology in networked solutions;
- satellite downlink antenna farm and extensive fiber connectivity for content contribution and distribution; and
- multi-path, redundant HD server-based master control system responsible for our distribution feeds.

The Miami facility also includes office space for production and back-office personnel, as well as dressing rooms, make-up rooms and green rooms for our on-air talent and studio guests.

We also have 3,500 square feet of HD TV-Studio production space in Puerto Rico with a fully equipped HD control room and two edit suites.

Advertising Revenue

The vast majority of our revenue is derived from cash advertising sales. Advertising revenue has historically been classified into two categories – "national" and "local." "National" generally refers to advertising that is solicited by a representative firm for national advertisers. A subset category of national advertising revenue is network advertising revenue, which is advertising purchased by our other strategic alliance agreements. Our national sales representative for our radio stations is McGavren Guild Media, LLC. "Local" refers to advertising purchased by advertisers and agencies in the local market served by a particular station.

Current trends in the media advertising market have changed the long-established model for categorizing advertising revenue. We have expanded the conventional model by offering "integrated sponsorship" opportunities, which are highly sought after and command a higher investment from agencies, in order to maximize our advertisers' opportunities. We expect that our primary source of revenue from our broadcast stations will be generated from the sale of national, local and integrated sponsorship advertising. In addition, we are anticipating that our television, radio and internet offerings will generate more advertising opportunities by offering multi-media packages.

We believe that the broadcasting industry is one of the most efficient and cost-effective means for advertisers to reach targeted demographic groups. Advertising rates charged by a station are based primarily on the station's ability to attract an audience in a given market and on the attractiveness to advertisers of the station's audience demographics, as well as the demand on available advertising inventory. Rates also vary depending upon a program's popularity among the listeners/viewers an advertiser is seeking to attract and the availability of alternative media in the market. Radio advertising rates generally are highest during the morning drive-time hours, which are the peak hours for radio audience listening. Television advertising rates are higher during prime time evening viewing periods. A broadcaster that has multiple stations in a market appeals to national advertisers because these advertisers can reach more listeners and viewers, thus enabling the broadcaster to attract a greater share of the advertising revenue in a given market. In light of these factors, we seek to grow our revenue by taking advantage of our presence in major Hispanic markets as new and existing advertisers recognize the increasing desirability of targeting the growing U.S. Hispanic population.

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. We also determine the number of advertisements broadcast hourly that can 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.

We have short- and long-term contracts with our advertisers, although it is customary in the radio and television industry that the majority of advertising contracts are short-term and generally run for less than three months. This affords broadcasters the opportunity to modify advertising rates as dictated by changes in viewer ratings, changes in competitive dynamics and changes in the business climate within a particular market. In each of our broadcasting markets, we employ sales personnel to obtain local advertising revenue. Our local sales force is responsible for maintaining relationships with key local advertisers and agencies and identifying new advertisers. We pay commissions to our local sales staff upon receipt of payment for their respective billings which assists in our collection efforts.

Seasonality

Seasonal broadcasting revenue fluctuations are common in the broadcasting industry and are primarily due to fluctuations in advertising expenditures by local and national advertisers. Our net broadcasting revenues vary throughout the year. Historically, our first calendar quarter (January through March) has generally produced the lowest net broadcasting revenue for the year because of routine post-holiday decreases in advertising expenditures.

Competition

The success of our broadcast stations depends significantly upon their audience ratings and their share of the overall advertising revenue within their markets. The radio and television broadcasting industries are highly competitive businesses. Each of our radio stations compete with both Spanish-language and English-language radio stations in their market, as well as other media, such as newspapers, broadcast television, cable television, the Internet, magazines, outdoor advertising, satellite radio, transit advertising and direct mail marketing. Our television operations compete for viewers and revenue with both Spanish-language and English-language television stations in our local markets, as well as nationally broadcast television operations, cable television, the Internet and other video media.

Several of the broadcast stations with which we compete are subsidiaries of larger national or regional companies that may have substantially greater financial resources than we do. Factors which are material to our competitive position include:

- management experience;
- talent and popularity of on-air personalities and television show hosts and actors;
- audience ratings and our broadcast stations' rank in their markets;
- sales talent and experience;
- signal strength and frequency; and
- audience demographics, including the nature of the Spanish-language market targeted by a particular station.

Although the broadcast industry is highly competitive, some barriers to entry do exist. These barriers can be mitigated to some extent by changing existing broadcast station formats and programming and upgrading power, among other actions. The operation of a broadcast station requires a license or other authorization from the Federal Communications Commission (the FCC). The number of AM radio stations that can operate in a given market is limited by the availability of AM radio spectrum in the market. The number of FM radio stations and television stations that can operate in a given market is limited by the availability of those frequencies allotted by the FCC to communities in such market. In addition, the FCC's multiple ownership rules regulate the number of stations that may be owned and controlled by a single entity in a given market. For a discussion of FCC regulation, see "Federal Regulation of Radio and Television Broadcasting" below.

The radio industry is also subject to competition from new media technologies that are being developed or introduced, such as the delivery of audio programming by satellite and cable television systems. The FCC has licensed a company to provide satellite digital audio radio services (DARS). DARS provides a medium for the delivery by satellite of multiple audio programming formats to local and national audiences in exchange for the payment of a subscription fee. Some radio broadcast stations, including ours, are presently utilizing digital technology on their existing terrestrial frequencies to deliver audio programming. The FCC also has begun granting licenses for a new "low power" radio or "microbroadcasting" service to provide low-cost neighborhood service on frequencies which would not interfere with existing stations.

The FCC has selected In-Band On-Channel™, also known as IBOC or "HD Radio®," as the exclusive technology for introduction of terrestrial digital operations by AM and FM radio stations. HD Radio® technology permits a station to transmit radio programming in both analog and digital formats, and eventually in digital only formats, using the bandwidth that the radio station is currently licensed to use. HD Radio® technology is used to (1) improve sound quality, (2) provide spectrum for enhanced data services and multiple program streams and (3) allow radio stations to time broker unused digital bandwidth to third parties, thereby providing new business opportunities for radio broadcasters. Final digital radio rules, including the imposition of new public interest requirements and appropriate limits to the amount of subscription requirements, remain under consideration by the FCC.

We currently utilize HD Radio® digital technology on some of our stations and will evaluate additional installations over the next few years. This digital technology, which is not required by the FCC, offers the possibility of multiple audio channels in our assigned frequencies.

The delivery of information through the presently minimally regulated Internet has also created a new form of competition for both radio and television. Internet broadcasts have no geographic limitations and can provide listeners with programming from around the country and the world. We expect that improvements from higher bandwidths, faster download speeds and wider programming selection may make Internet radio a more significant competitor in the future. The radio broadcasting industry historically has grown despite the introduction of new technologies for the delivery of entertainment and information, such as television broadcasting, cable television, audio tapes, compact discs and portable digital music players.

Recent developments by many companies, including internet service providers, are expanding the variety and quality of broadcast content on the internet. Internet companies have developed business relationships with companies that have traditionally provided syndicated programming, network television and other content. As a result, additional programming is becoming available through nontraditional methods, which can directly impact the number of TV viewers and thus indirectly impact station rankings, popularity and revenue possibilities from our stations. Like radio, the television broadcasting industry has grown, notwithstanding the increasing popularity of entertainment and media content delivered through cell phones and other portable wireless devices. We cannot assure you, however, that the development or introduction of any new media technology will not have an adverse effect on the radio and television broadcasting industries.

We cannot predict what other matters may be considered in the future by the FCC, nor can we assess in advance what impact, if any, the implementation of any of these proposals or changes may have on our business. See "Federal Regulation of Radio and Television Broadcasting" below.

Trademarks, Copyrights and Licenses

In the course of our business, we use various trademarks, copyrights, trade names, domain names and service marks, including logos, with our products and services in our programming, advertising and promotions. Trademarks and copyrights are of material importance to our business and are protected by registration or otherwise in the United States, including Puerto Rico. We believe our trademarks, copyrights, trade names, domain names and service marks are important to our business, and we intend to continue to protect and promote them where appropriate and to protect the registration of new trademarks and copyrights, including through legal action. We do not hold or depend upon any material government license, franchise or concession, except that we hold and depend upon the broadcast licenses granted by the FCC and hold certain trademarks granted by the United States Patent and Trademark Office.

Environmental Matters

As the owner, lessee or operator of various real properties and facilities, we are subject to various federal, state and local environmental laws and regulations. Historically, compliance with these laws and regulations has not had a material adverse effect on our business. We cannot assure you, however, that compliance with existing or new environmental laws and regulations will not require us to make significant expenditures of funds.

Employees

As of December 31, 2012, we had 427 full-time employees and 134 part-time employees. None of our employees are represented by a labor organization or are covered by a collective bargaining agreement. We consider our relations with our employees to be satisfactory.

Our business depends upon the efforts, abilities and expertise of our executive officers and other key employees, including on-air talent, as well as our ability to hire and retain qualified personnel. The loss of any of these executive officers and key employees, particularly Raúl Alarcón, Chairman of our Board of Directors, Chief Executive Officer and President, could have a material adverse effect on our business.

Legal Proceedings

From time to time we are involved in various routine legal and administrative proceedings and litigation incidental to the conduct of our business, such as contractual matters and employee-related matters. In recent years, we have been subject to administrative proceedings and lawsuits, including class action lawsuits, alleging violations of federal and state law regarding workplace, wage-hour and employment discrimination matters, and a number of these lawsuits have resulted in the payment of substantial damages. In the opinion of management, such litigation is not likely to have a material adverse effect on our business, operating results or financial condition.

Antitrust

We have completed, and in the future may complete, strategic acquisitions and divestitures in order to achieve a significant presence with clusters of stations in the top U.S. Hispanic markets. As a result of the industry consolidation resulting from the passage of the Telecommunications Act of 1996, the Federal Trade Commission (the FTC) and the Department of Justice (the DOJ), the federal agencies responsible for enforcing the federal antitrust laws, have reviewed certain proposed acquisitions of broadcast stations and station networks. The DOJ can be particularly aggressive when the proposed buyer already owns one or more broadcast stations in the market of the station it is seeking to buy and, following a proposed acquisition, would garner a substantial portion of the advertising revenues in a market. The DOJ has challenged a number of broadcasting transactions. Some of those challenges ultimately resulted in consent decrees requiring, among other things, divestitures of certain stations. Additionally, the FTC has initiated a rule-making process that proposes numerous changes to the information to be provided both as part of the premerger notification and in response to a request for additional information. As part of its scrutiny of station acquisitions, the DOJ has stated publicly that it believes that commencement of operations under time brokerage agreements, local marketing agreements and other similar agreements customarily entered into in connection with station transfers prior to the expiration of the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the HSR Act), could violate the HSR Act. In connection with acquisitions, subject to the waiting period under the HSR Act, so long as the DOJ policy on the issue remains unchanged, we would not expect to commence operation of any affected station under a time brokerage agreement, local marketing agreement or similar agreement until the waiting period has expired or been terminated.

Federal Regulation of Radio and Television Broadcasting

General

The radio and television broadcasting industry is subject to extensive and changing regulation by the FCC with regard to programming, technical operations, employment, ownership and other business practices. The FCC regulates broadcast stations pursuant to the Communications Act. The Communications Act permits the operation of broadcast stations only in accordance with a license issued by the FCC upon a finding that the grant of a license would serve the public interest, convenience and necessity. The Communications Act provides for the FCC to exercise its licensing authority to provide a fair, efficient and equitable distribution of broadcast service throughout the United States. Among other things, the FCC:

- assigns frequency bands for radio and television broadcasting;
- determines the particular frequencies, locations and operating power of radio and television broadcast stations;
- issues, renews, revokes and modifies radio and television broadcast station licenses;
- establishes technical requirements for certain transmitting equipment used by radio and television broadcast stations;
- adopts and implements regulations and policies that directly or indirectly affect the ownership, operation, program content and employment and business practices of radio and television broadcast stations;
- has the power to impose penalties, including monetary forfeitures and license revocations, for violations of its rules and the Communications Act; and
- regulates certain aspects of the operation of cable and direct broadcast satellite systems and certain other electronic media that compete with broadcast stations.

Congress, the FCC and, in some cases, local jurisdictions, are considering and may in the future adopt new laws, regulations and policies that could affect the operation, ownership and profitability of our stations, result in the loss of audience share and advertising revenue for our stations or affect our ability to acquire additional stations or finance such acquisitions. Such matters include or may include:

- changes to the license authorization and renewal process;
- proposals to improve record keeping, including enhanced disclosure of stations' efforts to serve the public interest;
- proposals to impose spectrum use or other fees on FCC licensees;

- changes to rules relating to political broadcasting including proposals to grant free air time to candidates, and other changes regarding political and nonpolitical program content, funding, political advertising rates, and sponsorship disclosures;
- proposals to restrict or prohibit the advertising of beer, wine and other alcoholic beverages;
- proposals regarding the regulation of the broadcast of indecent or violent content;
- proposals to increase the actions stations must take to demonstrate service to their local communities;
- technical and frequency allocation matters, including increased protection of low power FM stations from interference by full-service stations and changes to the method used to allot FM radio frequencies;
- changes in broadcast multiple ownership, foreign ownership, cross-ownership and ownership attribution policies;
- changes to allow satellite radio operators to insert local content into their programming service;
- service and technical rules for digital radio, including possible additional public interest requirements for terrestrial digital audio broadcasters;
- legislation that would provide for the payment of royalties to artists and musicians whose music is played on terrestrial radio stations;
- proposals to alter provisions of the tax laws affecting broadcast operations and acquisitions; and.
- plans and related proposals to recapture and reallocate television broadcast spectrum by incentivizing current television licensees to return some of their spectrum to the government through a voluntary spectrum auction and "repacking" of channel assignments to increase efficient spectrum usage.

The FCC also has adopted procedures for the auction of broadcast spectrum in circumstances where two or more parties have filed mutually exclusive applications for authority to construct new stations or certain major changes in existing stations. Such procedures may limit our efforts to modify or expand the broadcast signals of our stations.

We cannot predict what changes, if any, might be adopted or considered in the future, or what impact, if any, the implementation of any particular proposals or changes might have on our business.

The following is a brief summary of certain provisions of the Communications Act and specific FCC rules and policies. This summary does not purport to be complete and is subject to the text of the Communications Act, the FCC's rules and regulations, and the rulings of the FCC. You should refer to the Communications Act and these FCC rules, regulations and rulings for further information concerning the nature and extent of federal regulation of broadcast stations. A licensee's failure to observe the requirements of the Communications Act or FCC rules and policies may result in the imposition of various sanctions, including admonishment, fines, the grant of renewal terms of less than eight years, the grant of a license with conditions or, for particularly egregious violations, the denial of a license renewal application, the revocation of an FCC broadcast license or the denial of FCC consent to acquire additional broadcast properties, all of which could have a material adverse impact on our operations.

FCC Licenses

The Communications Act provides that a broadcast station license may be granted to any applicant if the granting of the application would serve the public interest, convenience and necessity, subject to certain limitations. In making licensing determinations, the FCC considers an applicant's legal, technical, financial and other qualifications. The FCC grants radio and television broadcast station licenses for specific periods of time and, upon application, may renew them for additional terms. Under the Communications Act, radio and television broadcast station licenses may be granted for a maximum term of eight years.

The FCC classifies each AM and FM radio station. The minimum and maximum facilities requirements for an FM station are determined by its class. Some FM class designations depend upon the geographic zone in which the transmitter of the FM station is located. In general, commercial FM stations are classified as Class A, B1, C3, B, C2, C1, C0 and C, in order of increasing power and antenna height. Class C FM stations are subject to involuntary downgrades to Class C0 in various circumstances if they do not meet certain antenna height specifications. We do not operate any AM radio stations.

The following table sets forth the technical information and license expiration dates of each of our radio and television stations:

Broadcast station	Market	Date of acquisition	Date of license expiration	Operation frequency	FCC class	HAAT (In meters)	Power (In kilowatts)
KLAX-FM	Los Angeles, CA	2/24/1988	12/1/2013	97.9 MHz	B	184	33.00
KXOL-FM	Los Angeles, CA	10/30/2003	12/1/2013	96.3 MHz	B	398	6.60
WSKQ-FM	New York, NY	1/26/1989	6/1/2006(1)	97.9 MHz	B	415	6.00
WPAT-FM	New York, NY	3/25/1996	6/1/2014	93.1 MHz	B	433	5.40
WMEG-FM	Puerto Rico	5/13/1999	2/1/2012(2)	106.9 MHz	B	594	25.00
WEGM-FM	Puerto Rico	1/14/2000	2/1/2020	95.1 MHz	B	600	25.00
WRXD-FM	Puerto Rico	12/1/1998	2/1/2020	96.5 MHz	B	852	11.50
WZET-FM	Puerto Rico	5/13/1999	2/1/2020	92.1 MHz	A	337	3.00
WIOA-FM	Puerto Rico	1/14/2000	2/1/2020	99.9 MHz	B	560	31.00
WIOB-FM	Puerto Rico	1/14/2000	2/1/2020	97.5 MHz	B	302	50.00
WIOC-FM	Puerto Rico	1/14/2000	2/1/2020	105.1 MHz	B	(61)	47.00
WZNT-FM	Puerto Rico	1/14/2000	2/1/2012(2)	93.7 MHz	B	560	28.00
WZMT-FM	Puerto Rico	1/14/2000	2/1/2020	93.3 MHz	B1	(69)	14.50
WODA-FM	Puerto Rico	1/14/2000	2/1/2020	94.7 MHz	B	560	31.00
WNOD-FM	Puerto Rico	1/14/2000	2/1/2020	94.1 MHz	B	597	25.00
WLEY-FM	Chicago, IL	3/27/1997	12/1/2012(2)	107.9 MHz	B	232	21.00
WXDJ-FM	Miami, FL	3/28/1997	2/1/2012(2)	95.7 MHz	C2	167	40.00
WCMQ-FM	Miami, FL	12/22/1986	2/1/2012(2)	92.3 MHz	C2	188	31.00
WRMA-FM	Miami, FL	3/28/1997	2/1/2020	106.7 MHz	C0	300	100.00
WRAZ-FM(3)	Miami, FL	1/1/2008	2/1/2020	106.3 MHz	C2	93	50.00
KRZZ-FM	San Francisco, CA	12/23/2004	12/1/2013	93.3 MHz	B	415	6.00
WSBS-DT	Miami, FL(4)	3/1/2006	2/1/2013(2)	CH. 3	DTV	54	1.00
WSBS-CD	Miami, FL	3/1/2006	2/1/2013(2)	CH. 50	CA	236	150.00
KTBU-DT	Houston, TX(5)	8/1/2011	8/1/2014	CH. 42	DTV	597	1000.00

(1) An application to renew the FCC broadcast license for WSKQ-FM was filed on January 31, 2006. Approval of the application is still pending. A petition to deny the application for renewal was filed by several parties who alleged, inter alia, that WSKQ-FM had broadcast indecent material during the license term. An opposition pleading was submitted to the FCC categorically stating that the allegations made did not raise sufficient questions to warrant nonrenewal of the license. The application remains pending, and the station continues to operate under its expired license until the FCC takes action on the renewal. In the great majority of cases, radio broadcast licenses are renewed by the FCC even when petitions to deny are filed against license renewal applications.

(2) An application to renew the FCC broadcast license for this station was timely filed. Approval of the application is still pending.

(3) WRAZ-FM is operated pursuant to a local marketing agreement with South Broadcasting System, Inc. See Notes to Consolidated Financial Statements.

(4) TV Station WSBS-DT is licensed to Key West and is part of the Miami DMA (designated market area, as defined by Nielsen Media Research).

(5) TV Station KTBU-DT is licensed to Conroe, Texas and is part of the Houston DMA.

License Grant and Renewal

Pursuant to the Communications Act, the FCC renews broadcast licenses without a hearing upon a finding that:

- the station has served the public interest, convenience and necessity;
- there have been no serious violations by the licensee of the Communications Act or FCC rules and regulations; and
- there have been no other violations by the licensee of the Communications Act or FCC rules and regulations which, taken together, indicate a pattern of abuse.

After considering these factors, the FCC may grant the license renewal application with or without conditions, including renewal for a term less than the maximum term otherwise permitted by law, or hold an evidentiary hearing.

The Communications Act authorizes the filing of petitions to deny a license renewal application during specific periods of time after a renewal application has been filed. Interested parties, including members of the public, may use these petitions to raise issues concerning a renewal applicant's qualifications. If a substantial and material question of fact concerning a renewal application is raised by the FCC or other interested parties, or if for any reason the FCC cannot determine that granting a renewal application would serve the public interest, convenience and necessity, the FCC will hold an evidentiary hearing on the application. If, as a result of an evidentiary hearing, the FCC determines that the licensee has failed to meet the requirements specified above and that no mitigating factors justify the imposition of a lesser sanction, then the FCC may deny a license renewal application. Generally, our licenses have been renewed without any material conditions or sanctions being imposed, but we cannot assure that the licenses of each of our stations will continue to be renewed or will continue to be renewed without conditions or sanctions.

Transfers and Assignments of License

The Communications Act requires prior approval by the FCC for the assignment of a broadcast license or the transfer of control of a corporation or other entity holding a license. In determining whether to approve an assignment of a radio broadcast license or a transfer of control of a broadcast licensee, the FCC considers, among other things:

- the financial and legal qualifications of the prospective assignee or transferee, including compliance with FCC restrictions on non-U.S. citizens or entity ownership and control;
- compliance with FCC rules limiting the common ownership of attributable interests in broadcast and newspaper properties;

- the history of compliance with FCC operating rules; and
- the character qualifications of the transferee or assignee and the individuals or entities holding attributable interests in them.

To obtain the FCC's prior consent to assign or transfer a broadcast license, appropriate applications must be filed with the FCC. If the assignment or transfer results in a substantial change in ownership or control, the application must be placed on public notice for a period of 30 days during which petitions to deny the application may be filed by interested parties, including members of the public. Informal objections may be filed any time up until the FCC acts upon the application. If the FCC grants an assignment or transfer application, interested parties have 30 days from public notice of the grant to seek reconsideration of that grant. The FCC has an additional ten days to set aside such grant on its own motion. When ruling on an assignment or transfer application, the FCC is prohibited from considering whether the public interest might be served by an assignment or transfer to any party other than the assignee or transferee specified in the application.

Alien Ownership

Under the Communications Act, a broadcast license may not be granted to or held by any corporation that has more than 20% of its capital stock owned or voted by non-U.S. citizens, whom the FCC refers to as "aliens," or entities or their representatives, by foreign governments or their representatives, or by non-U.S. corporations. Furthermore, the Communications Act provides that no FCC broadcast license may be granted to or held by any corporation directly or indirectly controlled by any other corporation of which more than 25% of the capital stock is owned or voted by non-U.S. citizens or entities or their representatives, by foreign governments or their representatives, or by non-U.S. corporations, if the FCC finds the public interest will be served by the refusal or revocation of such license. The FCC has interpreted this provision of the Communications Act to require an affirmative public interest finding before a broadcast license may be granted to or held by any such entity, and the FCC has made such an affirmative finding only in limited circumstances. These restrictions apply in modified form to other forms of business organizations, including partnerships and limited liability companies. Thus, the licenses for our stations could be revoked if more than 25% of our outstanding capital stock is issued to or for the benefit of non-U.S. citizens. Our certificate of incorporation provides that the transfer or conversion of our capital stock, whether voluntary or involuntary, shall not be permitted, and shall be ineffective, if such transfer or conversion would violate (or would result in violation of) the Communications Act or any of the rules or regulations promulgated thereunder or require the prior approval of the FCC, unless such prior approval has been obtained.

Ownership Attribution

The FCC generally applies its broadcast ownership limits to "attributable" interests held by an individual, corporation, partnership or other association or entity, including limited liability companies. In the case of a corporation holding broadcast licenses, the interests of officers, directors and those who, directly or indirectly, have the right to vote 5% or more of the stock of a licensee corporation are generally deemed attributable interests, as are officer positions and directors of a corporate parent of a broadcast licensee. The FCC treats all partnership interests as attributable, except for those limited partnership interests that under FCC policies are considered insulated from material involvement in the management or operation of the media-related activities of the partnership. The FCC currently treats limited liability companies like limited partnerships for purposes of attribution. Stock interests held by insurance companies, mutual funds, bank trust departments and certain other passive investors that hold stock for investment purposes only become attributable with the ownership of 20% or more of the voting stock of the corporation holding broadcast licenses.

To assess whether a voting stock interest in a direct or an indirect parent corporation of a broadcast licensee is attributable, the FCC uses a "multiplier" analysis in which noncontrolling voting stock interests are deemed proportionally reduced at each noncontrolling link in a multi-corporation ownership chain. A time brokerage agreement with another radio or television station in the same market creates an attributable interest in the brokered radio or television station, as well as for purposes of the FCC's local radio and television station ownership rules, if the agreement affects more than 15% of the brokered radio or television station's weekly broadcast hours. Similarly, a radio station licensee's right under a joint sales agreement to sell more than 15% per week of the advertising time on another radio station in the same market constitutes an attributable ownership interest in such station for purposes of the FCC's ownership rules.

Debt instruments, nonvoting stock, stock options or other nonvoting interests with rights of conversion to voting interests that have not yet been exercised, insulated limited partnership interests where the limited partner is not materially involved in the media-related activities of the partnership, and minority voting stock interests in corporations where there is a single holder of more than 50% of the outstanding voting stock whose vote is sufficient to affirmatively direct the affairs of the corporation generally do not subject their holders to attribution, unless such interests implicate the FCC's equity-debt-plus (or EDP) rule. Under the EDP rule, a major programming supplier or a same-market media entity will have an attributable interest in a station if the supplier or same-market media entity also holds debt or equity, or both, in the station that is greater than 33% of the value of the station's total debt plus equity. For purposes of the EDP rule, equity includes all stock, whether voting or nonvoting, and interests held by limited partners or limited liability company members that are not materially involved. A major programming supplier is any supplier that provides more than 15% of the station's weekly programming hours.

Multiple Ownership

The Communications Act and FCC rules generally restrict ownership, operation or control of, or the common holding of attributable interests in (i) broadcast stations above certain limits serving the same local market, and (ii) broadcast stations and a daily newspaper serving the same local market. On July 7, 2011, the United States Court of Appeals for the Third Circuit upheld the FCC's last media ownership review order, to the extent that the FCC retained most of its media ownership rules, and vacated the portion of that order that sought to relax restrictions on common ownership of broadcast stations and daily newspapers. In December 2011, the FCC issued a Notice of Proposed Rulemaking (NPRM) as part of its 2010 quadrennial review of its media ownership rules. The NPRM proposes to maintain most of the current rules described below but does propose to relax the newspaper-broadcast cross-ownership rule to apply a positive presumption to requests to own a newspaper and a broadcast station in the 20 largest DMAs. The NPRM also proposes to eliminate the radio-television cross-ownership rule. In December 2012, the FCC offered interested parties the opportunity to file additional comments in the 2010 quadrennial review to address a report on ownership of commercial broadcast stations that the FCC released in November 2012. We cannot predict the outcome of these proceedings or whether the FCC's multiple ownership rules will be modified.

The FCC's currently effective multiple ownership rules are briefly summarized below.

Local Radio Ownership

Although current FCC rules allow one entity to own, control or hold attributable interests in an unlimited number of AM and FM radio stations nationwide, the Communications Act and the FCC's rules limit the number of radio broadcast stations in local markets (generally defined as those counties in the Arbitron® Metro Survey Area, where they exist) in which a single entity may own an attributable interest as follows:

- In a radio market with 45 or more full-power commercial and noncommercial radio stations, a party may own, operate or control up to eight commercial radio stations, not more than five of which are in the same service (AM or FM).