SPANISH BROADCASTING SYSTEM, INC.
AND SUBSIDIARIES

Consolidated Statements of Operations and Comprehensive (Loss) Income

Years ended December 31, 2012 and 2011

(In thousands, except share data)

	2012	2011
Net revenue	$139,522	140,984
Operating expenses:		
Engineering and programming	31,245	37,481
Selling, general and administrative	57,629	52,433
Corporate expenses	7,507	7,247
Depreciation and amortization	5,464	5,436
Total operating expenses	101,845	102,597
Gain on the disposal of assets	(15)	(10)
Impairment charges and restructuring costs	442	207
Operating income	37,250	38,190
Other (expense) income:		
Interest expense	(36,555)	(8,217)
Interest income	12	35
Loss on early extinguishment of debt	(391)	—
(Loss) income before income taxes	316	30,008
Income tax expense	1,597	6,306
Net (loss) income	(1,281)	23,702
Dividends on Series B preferred stock	(9,927)	(9,927)
Net (loss) income available to common stockholders	$(11,208)	13,775
Basic net (loss) income per common share	$ (1.54)	1.90
Diluted net (loss) income per common share	(1.54)	1.89
Weighted average common shares outstanding:		
Basic	7,267	7,267
Diluted	7,267	7,278
Net (loss) income	(1,281)	23,702
Other comprehensive (loss) income, net of taxes- unrealized gain (loss) on derivative instrument	(76)	89
Total comprehensive (loss) income	(1,357)	23,791

See accompanying notes to consolidated financial statements.

SPANISH BROADCASTING SYSTEM, INC.
AND SUBSIDIARIES

Consolidated Statements of Changes in Stockholders' Deficit

Years ended December 31, 2012 and 2011

(In thousands, except share data)

	Class C preferred stock		Class A common stock		Class B common stock					
	Number of shares	Par value	Number of shares	Par value	Number of shares	Par value	Additional paid-in capital	Accumulated other comprehensive loss, net	Accumulated deficit	Total stockholders' deficit
Balance at December 31, 2010	380,000	$ 4	4,163,991	$ —	2,340,353	$ —	525,205	(829)	(572,890)	(48,510)
Issuance of Class A common stock from vesting of restricted stock	—	—	3,000	—	—	—	—	—	—	—
Stock-based compensation	—	—	—	—	—	—	30	—	—	30
Series B preferred stock dividends	—	—	—	—	—	—	—	—	(9,927)	(9,927)
Comprehensive income:										
Net income	—	—	—	—	—	—	—	—	23,702	23,702
Unrealized gain on derivative instrument	—	—	—	—	—	—	—	89	—	89
Balance at December 31, 2011	380,000	4	4,166,991	—	2,340,353	—	525,235	(740)	(559,115)	(34,616)
Stock-based compensation	—	—	—	—	—	—	46	—	—	46
Series B preferred stock dividends	—	—	—	—	—	—	—	—	(9,927)	(9,927)
Comprehensive loss:										
Net loss	—	—	—	—	—	—	—	—	(1,281)	(1,281)
Unrealized loss on derivative instrument	—	—	—	—	—	—	—	(76)	—	(76)
Balance at December 31, 2012	380,000	$ 4	4,166,991	$ —	2,340,353	$ —	525,281	(816)	(570,323)	(45,854)

See accompanying notes to consolidated financial statements.

SPANISH BROADCASTING SYSTEM, INC.
AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years ended December 31, 2012 and 2011

(In thousands, except share data)

	2012	2011
Cash flows from operating activities:		
Net (loss) income	$ (1,281)	23,702
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Gain on the disposal of assets	(15)	(10)
Impairment charges and restructuring costs	379	207
Stock-based compensation	46	30
Depreciation and amortization	5,464	5,436
Net barter income	(388)	(487)
Provision for trade doubtful accounts	1,091	801
Loss on early extinguishment of debt	391	—
Amortization of deferred financing costs	3,122	1,049
Amortization of orginal issued discount	1,056	—
Deferred income taxes	1,681	6,121
Unearned revenue-barter	147	528
Changes in operating assets and liabilities:		
Trade receivables	(3,967)	1,690
Prepaid expenses and other current assets	299	(1,135)
Other assets	66	309
Accounts payable and accrued expenses	(400)	(908)
Accrued interest	7,059	(3,777)
Other liabilities	(187)	(544)
Net cash provided by operating activities	14,563	33,012
Cash flows from investing activities:		
Purchases of property and equipment	(1,591)	(2,735)
Proceeds from the sale of property and equipment	10	37
Acquisition of a television station and related equipment	—	(8,000)
Net cash used in investing activities	(1,581)	(10,698)
Cash flows from financing activities:		
Proceeds from 12.5% senior secured notes due 2017	266,750	—
Payment of financing costs	(15,755)	—
Payment of senior credit facility term loan 2012	(303,063)	(3,250)
Payment of Series B preferred stock cash dividends	(2,481)	(2,482)
Payments of other long-term debt	(3,039)	(456)
Net cash used in financing activities	(57,588)	(6,188)
Net (decrease) increase in cash and cash equivalents	(44,606)	16,126
Cash and cash equivalents at beginning of year	71,266	55,140
Cash and cash equivalents at end of year	$ 26,660	71,266
Supplemental cash flows information:		
Interest paid	$ 25,238	10,881
Income tax paid, net	$ 298	8
Noncash investing and financing activities:		
Transfer of prepaid expenses and other current assets to deferred financing costs	$ (1,861)	—
Promissory note issued for the acquisition of a television station and related equipment	$ —	8,000
Unrealized (loss) gain on derivative instruments	$ (76)	89
Accrual of Series B preferred stock dividends not declared	$ 7,446	7,445

See accompanying notes to consolidated financial statements.

(1) Organization and Nature of Business

Spanish Broadcasting System, Inc., a Delaware corporation, and its subsidiaries owns and/or operates 21 radio stations in the Los Angeles, New York, Puerto Rico, Chicago, Miami and San Francisco markets. In addition, we own and operate three television stations, which operate as one television operation, branded as "MegaTV." We also have various MegaTV broadcasting outlets under affiliation or programming agreements. As part of our operating business, we operate 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. We also occasionally produce live concerts and events throughout the U.S., including Puerto Rico.

Our primary source of revenue is the sale of advertising time on our stations to local and national advertisers. Our revenue is affected primarily by the advertising rates that our stations are able to charge, as well as the overall demand for advertising time in each respective market. Seasonal net broadcasting revenue fluctuations are common in the broadcasting industry and are due to fluctuations in advertising expenditures by local and national advertisers. Typically for the broadcasting industry, the first calendar quarter generally produces the lowest revenue.

The broadcasting industry is subject to extensive federal regulation which, among other things, requires approval by the Federal Communications Commission (FCC) for the issuance, renewal, transfer and assignment of broadcasting station operating licenses and limits the number of broadcasting properties we may acquire.

(2) Summary of Significant Accounting Policies and Related Matters

(a) Basis of Presentation

The consolidated financial statements include the accounts of Spanish Broadcasting System, Inc. and its subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation. In addition, we evaluated subsequent events after the balance sheet date and through the financial statements issuance date.

(b) Revenue Recognition

We recognize broadcasting revenue as advertisements are aired on our stations, subject to meeting certain conditions, such as persuasive evidence that an agreement exists, a fixed or determinable price and reasonable assurance of collection. Our revenue is presented net of agency commissions. Agency commissions are calculated based on a stated percentage applied to gross billing revenue. Advertisers remit the gross billing amount to the agency, and then the agency remits gross billings less their commission to us when the advertisement is not placed directly by the advertiser. Payments received in advance of being earned are recorded as customer advances, which are included in accounts payable and accrued expenses.

(c) Valuation of Accounts Receivable

We review accounts receivable to determine which accounts are doubtful of collection. In making the determination of the appropriate allowance for doubtful accounts, we consider our history of write-offs, relationships with our customers, age of the invoices and the overall creditworthiness of our customers. For the years ended December 31, 2012 and 2011, we incurred bad debt expense of $1.1 million and $0.8 million, respectively. Changes in the credit worthiness of customers, general economic conditions and other factors may impact the level of future write-offs.

(d) Property and Equipment

Property and equipment, including capital leases, are stated at historical cost, less accumulated depreciation and amortization. We depreciate the cost of our property and equipment using the straight-line method over the respective estimated useful lives (see note 6). Leasehold improvements are amortized on a straight-line basis over the shorter of the remaining life of the lease or the useful life of the improvements.

Maintenance and repairs are charged to expense as incurred; improvements are capitalized. When items are retired or are otherwise disposed of, the related costs and accumulated depreciation and amortization are removed from the accounts and any resulting gains or losses are credited or charged to operating income.

(e) Impairment or Disposal of Long-Lived Assets

Accounting for impairment or disposal of long-lived assets requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized in the amount by which the carrying amount of the asset exceeds the estimated fair value of the asset.

(f) FCC Broadcasting Licenses

Our indefinite-lived intangible assets consist of FCC broadcasting licenses. FCC broadcasting licenses are granted to stations for up to eight years under the Telecommunications Act of 1996. The Act requires the FCC to renew a broadcast license if: (i) it finds that the station has served the public interest, convenience and necessity; (ii) there have been no serious violations of either the Communications Act of 1934 or the FCC's rules and regulations by the licensee; and (iii) there have been no other serious violations, which taken together, constitute a pattern of abuse. We intend to renew our licenses indefinitely and evidence supports our ability to do so. Historically, there has been no material challenge to our license renewals. In addition, the technology used in broadcasting is not expected to be replaced by another technology any time in the foreseeable future.

We do not amortize our FCC broadcasting licenses. We test these indefinite-lived intangible assets for impairment at least annually or when an event occurs that may indicate that impairment may have occurred. We test our FCC broadcasting licenses for impairment at the market cluster level. We apply the guidance of Financial Accounting Standards Board (FASB) Accounting Standards Concept (ASC) Topic 350-30-35, *Unit of Accounting for Purposes of Testing for Impairment of Intangible Assets Not Subject to Amortization*, to certain of our FCC broadcasting licenses, if their market operations are consolidated.

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

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

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

These key assumptions are subject to such factors as: overall advertising demand, station listenership and viewership, audience tastes, technology, fluctuation in preferred advertising media and the estimated cost of capital. Since a number of factors may influence the determination of the fair value of our FCC broadcasting licenses, we are unable to predict whether impairments will occur in the future. Any significant change in these factors will result in a modification of the key assumptions, which may result in an additional impairment.

(g) Goodwill

Goodwill consists of the excess of the purchase price over the fair value of tangible and identifiable intangible net assets acquired in business combinations. We test goodwill for impairment at least annually at the reporting unit level. We have determined that we have two reporting units, Radio and Television. We currently only have goodwill in our radio reporting unit. We have aggregated our operating components (radio stations) into a single radio reporting unit based upon the similarity of their economic characteristics. Our evaluation included consideration of factors, such as regulatory environment, business model, gross margins, nature of services and the process for delivering these services.

The goodwill impairment test is a two-step test. Under the first step, the fair value of the reporting unit is compared with its carrying value (including goodwill). If the fair value of the reporting unit is less than its carrying value, an indication of goodwill impairment exists for the reporting unit and the enterprise must perform step two of the impairment test (measurement). If the fair value of the reporting unit exceeds its carrying value, step two does not need to be performed. Under step two, an impairment loss is recognized for any excess of the carrying amount of the reporting unit's goodwill over the implied fair value of that goodwill. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit in a manner similar to a purchase price allocation. The residual fair value after this allocation is the implied fair value of the reporting unit goodwill. Fair value of the reporting unit is determined using a discounted cash flow analysis. If the fair value of the reporting unit exceeds its carrying value, step two does not need to be performed.

(Continued)

During the years-ended December 31, 2012 and 2011, we performed interim and/or annual impairment reviews of our goodwill and determined that there was no impairment of goodwill. The estimated enterprise value of our radio reporting unit exceeded its carrying value during our impairment testing. In addition, there is currently a net accumulated deficit in our radio reporting unit and we have a net overall accumulated deficit; therefore we considered whether there were any adverse qualitative factors that would indicate that an impairment existed. When evaluating our estimated enterprise value, we utilized an income approach which uses assumptions and estimates which among others include the aggregated expected revenues and operating margins generated by our FCC broadcasting licenses (i.e. our stations) and use of a risk adjusted discount rate. We did not find reconciliation to our current market capitalization meaningful in the determination of our enterprise value given current factors that impact our market capitalization, including but not limited to: our recent NASDAQ delisting notice; limited trading volume; the impact of our television segment operating losses; and the significant voting control of our Chairman and Chief Executive Officer.

(h) Other Intangible Assets, Net

Other intangible assets, net, consist of favorable leases and agreements acquired. Gross other intangible assets total $2.5 million as of December 31, 2012 and 2011, respectively. These assets are being amortized over the lives of the leases; however, not to exceed 40 years.

Amortization expense amounted to $0.3 million and $0.1 million for the years ended December 31, 2012 and 2011, respectively. Estimated amortization expense for the five years subsequent to December 31, 2012 is as follows (in thousands):

Year ending December 31:	
2013	$186
2014	96
2015	96
2016	96
2017	96

(i) Deferred Financing Costs

Deferred financing costs relates to our 12.5% Senior Secured Notes due 2017 and our Senior Secured Credit Facility due 2012 (see note 8 and 9). Deferred financing costs are being amortized to interest expense over the term of the related debt using the effective interest method.

(j) Barter Transactions

Barter transactions represent advertising time exchanged for noncash goods and/or services, such as promotional items, advertising, supplies, equipment and services. Revenue from barter transactions are recognized as income when advertisements are broadcasted. Expenses are recognized when goods or services are received or used. We record barter transactions at the fair value of goods or services received or advertising surrendered, whichever is more readily determinable. Barter revenue amounted to $8.9 million and $6.1 million for the years ended December 31, 2012 and 2011, respectively. Barter expense amounted to $8.5 million and $5.6 million for the years ended December 31, 2012 and 2011, respectively.

Unearned revenue consists of the excess of the aggregate fair value of goods or services received by us, over the aggregate fair value of advertising time delivered by us on certain barter customers.

(k) Cash and Cash Equivalents

Cash and cash equivalents consist of cash and money market accounts at various commercial banks. All cash equivalents have original maturities of 90 days or less.

(l) Income Taxes

We file a consolidated federal income tax return for substantially all of our domestic operations. We are also subject to foreign taxes on our Puerto Rico operations. We account for income taxes under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of 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 liabilities, projected future taxable income, and tax planning strategies in making this assessment. If the realization of deferred tax assets in the future is considered more likely than not, an adjustment to the deferred tax assets would increase net income in the period such determination is made. Based upon the level of historical taxable income and projections for future taxable income over the periods which the deferred tax assets are deductible, at this time, management believes it is more likely than not that we will not realize the benefits of the majority of these deductible differences. As a result, we have established and maintained a valuation allowance for that portion of the deferred tax assets we believe will not be realized. We account for uncertain tax positions which require that a position taken or expected to be taken in a tax return be recognized in the financial statements when it is more likely than not (a likelihood of more than 50%) that the position would be sustained upon examination by tax authorities. A recognized tax position is then measured at the largest amount of benefit that is greater than 50% likely of being realized upon ultimate settlement. Interest and penalties on tax liabilities, if any, would be recorded in interest expense and other noninterest expense, respectively (see note 14).

(m) Advertising Costs

We incur advertising costs to add and maintain listeners. These costs are charged to expense in the period incurred. Cash advertising costs amounted to $0.4 million and $0.1 million in the years ended December 31, 2012 and 2011, respectively.

(n) Contingent Liabilities

Accounting standards require that an estimated loss from a loss contingency shall be accrued when information available prior to the issuance of the financial statements indicate that it is probable that an asset has been impaired or a liability has been incurred at the date of the financial statements and when the amount of the loss can be reasonably estimated. Accounting for contingencies such as legal and income tax matters requires us to use our judgment. We believe that our accruals for these matters are adequate. Nevertheless, the actual loss from a loss contingency might differ from our estimates.

(o) Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Significant items subject to such estimates and assumptions, include the useful lives of fixed assets; allowance for doubtful accounts; the valuation of FCC licenses and goodwill; the valuation of derivatives; accounting for income taxes; contingencies and litigation; and share-based compensation. These estimates and assumptions are based on management's best judgments. Management evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors, including the current economic environment, which management believes to be reasonable under the circumstances. Management adjusts such estimates and assumptions as facts and circumstances dictate. Illiquid credit markets, volatile equity markets and reductions in advertising spending have combined to increase the uncertainty inherent in such estimates and assumptions. Actual results could differ from these estimates.

(p) Concentration of Business and Credit Risks

Financial instruments that potentially subject us to concentrations of risk include primarily cash, trade receivables and financial instruments used in hedging activities (see notes 2(v) and 5). We place our cash with highly rated credit institutions. Although we try to limit the amount of credit exposure with any one financial institution, we do in the normal course of business maintain cash balances in excess of federally insured limits.

Our operations are conducted in several markets across the United States, including Puerto Rico. Our New York, Miami and Los Angeles markets accounted for more than 60% of net revenue for the years ended December 31, 2012 and 2011. Our credit risk is spread across a large number of diverse customers in a number of different industries, thus spreading the trade credit risk. We do not normally require collateral on credit sales; however, a credit analysis is performed before extending substantial credit to any customer and occasionally we request payment in advance. We establish an allowance for doubtful accounts based on customers' payment history and perceived credit risks.

(Continued)

(q) Basic and Diluted Net (Loss) Income Per Common Share

Basic net (loss) income per common share was computed by dividing net income available to common stockholders by the weighted average number of shares of common stock and convertible preferred stock outstanding for each period presented. Diluted net (loss) income per common share is computed by giving effect to common stock equivalents as if they were outstanding for the entire period. The following table summarizes the net (loss) income applicable to common stockholders and the net (loss) income per common share for the years ended December 31, 2012 and 2011 (in thousands, except per share data):

	2012	2011
Net (loss) income	$ (1,281)	23,702
Less dividends on Series B preferred stock	(9,927)	(9,927)
Net (loss) income available to common stockholders	$(11,208)	13,775
Basic net (loss) income per common stock	$ (1.54)	1.90
Diluted net (loss) income per common stock	(1.54)	1.89
Weighted average common shares outstanding:		
Basic	7,267	7,267
Diluted	7,267	7,278

The following is a reconciliation of the shares used in the computation of basic and diluted net (loss) income per share for the years ended December 31, 2012 and 2011 (in thousands, except per share data):

	2012	2011
Basic weighted average shares outstanding	7,267	7,267
Effect of dilutive equity instruments	—	11
Dilutive weighted average shares outstanding	7,267	7,278
Options to purchase shares of common stock and other stock-based awards outstanding which are not included in the calculation of diluted net (loss) income per share because their impact is anti-dilutive	134	127

(r) Fair Value Measurement

We determine the fair value of assets and liabilities using a fair value hierarchy that distinguishes between market participant assumptions developed based on market data obtained from sources independent of the reporting entity, and the reporting entity's own assumptions about market participant assumptions developed based on the best information available in the circumstances.

(Continued)

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, essentially an exit price (see note 18). The levels of the fair value hierarchy are:

- *Level 1*: inputs are quoted prices, unadjusted, in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.
- *Level 2*: inputs are other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. A Level 2 input must be observable for substantially the full term of the asset or liability.
- *Level 3*: inputs are unobservable and reflect the reporting entity's own assumptions about the assumptions that market participants would use in pricing the asset or liability.

(s) Share-Based Compensation Expense

We account for our share-based compensation expense based on the estimated grant date fair value method using the Black-Scholes option pricing model. For these awards, we have recognized compensation expense using a straight-line amortization method (prorated). Share-based compensation expense is based on awards that are ultimately expected to vest. Share-based compensation for the years ended December 31, 2012 and 2011 were reduced for estimated forfeitures. When estimating forfeitures, we consider voluntary termination behaviors, as well as trends of actual option forfeitures.

(t) Leasing (Operating Leases)

We recognize rent expense for operating leases with periods of free rent (including construction periods), step rent provisions and escalation clauses on a straight line basis over the applicable lease term. We consider lease renewals in the useful life of related leasehold improvements when such renewals are reasonably assured. We take these provisions into account when calculating minimum aggregate rental commitments under noncancelable operating leases (see note 13). From time to time, we receive capital improvement funding from our lessors. These amounts are recorded as deferred liabilities and amortized over the remaining lease term as a reduction of rent expense.

(u) Segment Reporting

Accounting standards establish the way public business enterprises report information about operating segments in annual financial statements and require those enterprises to report selected information about operating segments in interim financial reports issued to stockholders. We have two reportable segments: radio and television (see note 19).

(v) Derivative Instrument

We only enter into derivative contracts to hedge against the potential impact of increases in interest rates on our debt instruments. We also only enter into derivative contracts that we intend to designate as a hedge of the variability of cash flows to be paid related to a recognized asset or liability (cash flow hedge).

By using derivative financial instruments to hedge exposures to changes in interest rates, we expose ourselves to credit risk and market risk. Credit risk is the failure of the counterparty to perform under the terms of the derivative contract. We attempt to minimize the credit risk in derivative instruments by entering into transactions with high-quality counterparties whose credit rating is higher than Aa.

Market risk is the adverse effect on the value of a derivative instrument that results from a change in interest rates. The market risk associated with interest-rate contracts is managed by establishing and monitoring parameters that limit the types and degree of market risk that may be undertaken.

For all hedging relationships, we formally document the hedging relationship and its risk-management objective and strategy for undertaking the hedge, the hedging instrument, the hedged item, the nature of the risk being hedged, how the hedging instrument's effectiveness in offsetting the hedged risk will be assessed prospectively and retrospectively, and a description of the method of measuring ineffectiveness. We also formally assess, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting cash flows of hedged items.

We are accounting for our interest rate swaps as cash flow hedges, which requires us to recognize all derivative instruments on the consolidated balance sheet at fair value. The related gains or losses on these instruments are deferred in stockholders' deficit as a component of accumulated other comprehensive (loss) income. The deferred gains or losses on these transactions are recognized in income in the period in which the related items being hedged are recognized in expense. However, to the extent that the change in value of the derivative contracts does not offset the change in the value of the underlying transaction being hedged, that ineffective portion is immediately recognized into income. We recognize gains and losses immediately when the underlying transaction settles. For cash flow hedges in which hedge accounting is discontinued because it is determined that the derivative no longer qualifies as an effective cash flow hedge, we continue to carry the derivative instrument at its fair value on the consolidated balance sheet and recognize any subsequent changes in its fair value in earnings (change in fair value of derivative instrument).

(w) Comprehensive (Loss) Income

Our comprehensive (loss) income consists of net (loss) income and other items recorded directly to the equity accounts. The objective is to report a measure of all changes in equity of an enterprise that result from transactions and other economic events during the period. Our comprehensive (loss) income consists of net (loss) income and gains (losses) on derivative instruments that qualify for cash flow hedge treatment.

(x) New Accounting Standards

In July 2012, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2012-02, Intangibles—Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment. This ASU permits an entity the option to first assess qualitative factors to determine whether the existence of events and circumstances indicates that it is more likely than not that the indefinite-lived intangible asset is impaired. If, after assessing the totality of events and circumstances an entity concludes that it is not more likely than not that the indefinite-lived intangible asset is impaired, then the entity is not required to take further action. However, if an entity concludes otherwise, then it is required to determine the fair value of the indefinite-lived intangible asset and perform the quantitative impairment test by comparing the fair value with the carrying amount. The ASU is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. We implemented the provisions of ASU 2012-02 as of January 1, 2013 and did not have a material impact on our consolidated financial statements.

(3) Houston TV Asset Acquisition

On May 2, 2011, we entered into an asset purchase agreement (the Houston Purchase Agreement) with Channel 55/42 Operating, LP, a Texas limited partnership, USFR Tower Operating, LP, a Texas limited partnership, Humanity Interested Media, L.P., a Texas limited partnership, USFR Equity Drive Property LLC, a Texas limited partnership, and US Farm & Ranch Supply Company, Inc., a Texas corporation. Pursuant to the Houston Purchase Agreement, the Company acquired the assets, including licenses, permits and authorizations issued by the Federal Communications Commission used in or related to the operation of television station KTBU-TV (Digital 42 (Virtual Channel 55)) in Conroe, Texas.

On August 1, 2011, in connection with the closing, we paid an aggregate purchase price equal to $16.0 million, consisting of (i) cash in the amount of $8.0 million and (ii) a thirty-six month, secured promissory note in the principal amount of $8.0 million, bearing a fixed interest rate of 6%. The promissory note is payable in three annual installments (each equal to one-third of the principal amount of the note plus all accrued and unpaid interest) on each of August 1, 2012, 2013 and 2014. It is secured by the assets purchased pursuant to the Houston Purchase Agreement (other than as precluded by law) and all proceeds generated from such assets (see note 10).

We allocated the total cost of the purchase price of KTBU-TV based on the fair value of the assets acquired as follows: $10.4 million for FCC licenses, $4.5 million for property and equipment, and $1.1 million for other intangible assets.

(4) Impairment Charges and Restructuring Costs

We incurred impairment charges and restructuring costs related to the abandonment of a leased office space and losses on various subleased office spaces. During the years 2012 and 2011, we incurred impairment charges and restructuring costs of $0.4 million and $0.2 million, respectively. During the years 2012 and 2011, we paid impairment charges and restructuring costs of $0.4 million and $0.6 million, respectively. As of December 31, 2012 and 2011, the total accrued expenses on our consolidated balance sheets related to impairment charges and restructuring costs was $0.8 million and $1.2 million, which was included in other liabilities.

(5) Derivatives and Hedging Activities

At December 31, 2012 and 2011, derivative financial instruments are comprised of the following (in thousands):

Agreement	Fixed interest rate	Expiration date	2012 Notional amount	2011 Notional amount	2012 Fair value	2011 Fair value
Interest rate swap	6.31%	January 2017	$5,840	6,146	816	740

On January 4, 2007, we entered into a ten-year interest rate swap agreement for the original notional principal amount of $7.7 million whereby we will pay a fixed interest rate of 6.31%, as compared to interest at a floating rate equal to one-month LIBOR plus 125 basis points. The interest rate swap amortization schedule is identical to the promissory note amortization schedule, which has an effective date of January 4, 2007, monthly notional reductions and an expiration date of January 4, 2017 (see note 10).

(6) Property and Equipment, Net

Property and equipment, net consists of the following at December 31, 2012 and 2011 (in thousands):

	2012	2011	Estimated useful lives
Land	$ 7,306	7,306	—
Building and building improvements	35,623	36,506	7–20 years
Tower and antenna systems	6,370	6,352	10 years
Studio and technical equipment	23,455	22,979	5–10 years
Furniture and fixtures	5,386	5,422	5–10 years
Transmitter equipment	8,862	8,752	10 years
Leasehold improvements	2,865	3,295	1–20 years
Computer equipment and software	7,339	6,998	3–5 years
Other	1,897	1,967	3–5 years
	99,103	99,577	
Less accumulated depreciation and amortization	(61,089)	(57,834)	
	$ 38,014	41,743	

During the years ended December 31, 2012 and 2011, depreciation and amortization of property and equipment totaled $5.2 million and $5.3 million, respectively.

(Continued)

(7) Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses at December 31, 2012 and 2011 consist of the following (in thousands):

	2012	2011
Accounts payable – trade	$ 1,512	1,749
Accrued compensation and commissions	6,493	4,958
Accrued professional fees	1,279	2,887
Accrued step-up leases	1,379	1,308
Accrued income taxes	1,487	1,995
Other accrued expenses	4,125	3,886
	$16,275	16,783

(8) Senior Secured Credit Facilities

On June 10, 2005, we entered into a first lien credit agreement with Merrill Lynch, Pierce Fenner & Smith, Incorporated, as syndication agent (Merrill Lynch), Wachovia Bank, National Association, as documentation agent (Wachovia), Lehman Commercial Paper Inc., as administrative agent (Lehman), and certain other lenders. The First Lien Credit Facility consisted of a term loan in the amount of $325.0 million, payable in twenty-eight consecutive quarterly installments commencing on June 30, 2005. The amount of the quarterly installment due on each such payment date is equal to 0.25% of the original principal balance of the term loan funded on June 10, 2005, which is approximately $0.8 million. The term loan was due and payable on June 10, 2012. On February 7, 2012 we repaid and terminated the First Lien Credit Facility (see note 9).

(9) 12.5% Senior Secured Notes Due 2017

On February 7, 2012 we closed our offering of $275 million in aggregate principal amount of 12.5% senior secured notes due 2017 (the Notes) at an issue price of 97% of the principal amount. The Notes were offered solely by means of a private placement either to qualified institutional buyers in the United States pursuant to Rule 144A under the Securities Act, or to certain persons outside the United States pursuant to Regulation S under the Securities Act, as amended. We used the net proceeds from the offering, together with cash on hand, to repay and terminate the First Lien Credit Facility (see note 8), and to pay the transaction costs related to the offering.

(a) Interest

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

(b) 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 will be structurally subordinated to the obligations of our nonguarantor subsidiaries. The Notes and guarantees will be 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 in the future. The amount of such debt is limited by the covenants contained in the Indenture.

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 will be 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 will be structurally subordinated to all existing and future liabilities (including trade payables) of our nonguarantor subsidiaries.

(c) Covenants and Other Matters

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

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

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

(10) Other Long-Term Debt

Other long-term debt consists of the following at December 31, 2012 and 2011 (in thousands):

	2012	2011
Promissory note payable, due in annual principal installments of $2,667, plus interest at 6.0%, commencing August 2012, with balance due on August 2014	$ 5,333	8,000
Promissory note payable, due in monthly principal installments of $26, plus interest at 6.31%, commencing January 2007, with the balance due on January 2017	5,840	6,146
Obligation under capital lease with related party payable in monthly installments of $9, including interest at 6.25%, commencing June 1992. See note 13	—	33
Various obligations under capital leases	98	131
	11,271	14,310
Less current portion	(3,009)	(3,039)
	$ 8,262	11,271

The scheduled maturities of other long-term debt are as follows at December 31, 2012 (in thousands):

Year ending December 31:	
2013	$ 3,009
2014	3,005
2015	336
2016	306
2017	4,615
	$11,271

On May 2, 2011, we entered into an asset purchase agreement (the Houston Purchase Agreement) with Channel 55/42 Operating, LP, a Texas limited partnership, USFR Tower Operating, LP, a Texas limited partnership, Humanity Interested Media, L.P., a Texas limited partnership, USFR Equity Drive Property LLC, a Texas limited partnership, and US Farm & Ranch Supply Company, Inc., a Texas corporation. Pursuant to the Houston Purchase Agreement, the Company acquired the assets, including licenses, permits and authorizations issued by the Federal Communications Commission used in or related to the operation of television station KTBU-TV (Digital 42 (Virtual Channel 55)) in Conroe, Texas.

In connection with the closing, we paid an aggregate purchase price equal to $16.0 million, consisting of (i) cash in the amount of $8.0 million and (ii) a thirty-six month, secured promissory note in the principal amount of $8.0 million, bearing a fixed interest rate of 6%. The promissory note is payable in three annual installments (each equal to one-third of the principal amount of the note plus all accrued and unpaid interest) on the anniversary date of the closing of the transaction. It is secured by the assets purchased pursuant to the Houston Purchase Agreement (other than as precluded by law) and all proceeds generated from such assets (see note 3).

On January 4, 2007, SBS, through its wholly owned subsidiary, SBS Miami Broadcast Center, Inc. (SBS Miami Broadcast Center), completed the acquisition of certain real property located in Miami-Dade County, Florida pursuant to the purchase and sale agreement, dated August 24, 2006, as amended on September 25, 2006, as further amended on October 25, 2006. In connection with the acquisition of the real property, on January 4, 2007, SBS Miami Broadcast Center, entered into a loan agreement (the Loan Agreement), a ten-year promissory note in the original principal amount of $7.7 million (the Promissory Note), and a Mortgage, Assignment of Rents and Security Agreement (the Mortgage) in favor of Wells Fargo (formerly Wachovia Bank). The Promissory Note bears an interest rate equal to one-month LIBOR plus 125 basis points and requires monthly principal payments of $0.03 million with any unpaid balance due on its maturity date of January 4, 2017. The Promissory Note is secured by the real property and any related collateral.

The terms of the loan include certain restrictions and covenants for SBS Miami Broadcast Center, which limit, among other things, the incurrence of additional indebtedness and liens. The Loan Agreement specifies a number of events of default (some of which are subject to applicable cure periods), including, among others, the failure to make payments when due, noncompliance with covenants and defaults under other agreements or instruments of indebtedness. Upon the occurrence of an event of default and expiration of any applicable cure periods, Wells Fargo (formerly Wachovia Bank) may accelerate the loan and declare all amounts outstanding to be immediately due and payable.

Additionally, on January 4, 2007, SBS Miami Broadcast Center entered into an interest rate swap arrangement (the Swap Agreement) for the original notional principal amount of $7.7 million whereby it will pay a fixed interest rate of 6.31% as compared to interest at a floating rate equal to one-month LIBOR plus 125 basis points on the Promissory Note. 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.

In connection with the acquisition of the property, we agreed to unconditionally guaranty all obligations of SBS Miami Broadcast Center pursuant to the Promissory Note, the Loan Agreement, the Mortgage, the loan documents thereto, and the Swap Agreement, for the benefit of Wachovia and its affiliates (the Guaranty). In addition, the terms of the Guaranty contain certain financial covenants, which require us to maintain available liquidity of not less than 1.2 times the then outstanding principal balance of the loan made to SBS Miami Broadcast Center by Wells Fargo (formerly Wachovia Bank).

(11) 10 3/4% Series A and B Cumulative Exchangeable Redeemable Preferred Stock

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 10 3/4% 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 10 3/4% 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 76,702,083 shares of our Series B preferred stock for all of our then outstanding shares of Series A preferred stock.

We have 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 will have the right to require us to redeem all or a portion of such holder's Series B preferred stock at a purchase price of 100% of the liquidation preference thereof, plus accumulated and unpaid dividends.

Under the terms of our Series B preferred stock, we are required to pay dividends at a rate of 10 3/4% 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. Our ability to make the dividend payments described above will depend upon our future operating performance and on economic, financial, regulatory and other factors, many of which may be beyond our control.

During the years 2012 and 2011, our Board, under management's recommendation, determined that based on the circumstances at the time, among other things, the then current economic environment and future cash requirements, it was not prudent to declare or pay the January 15, 2013, October 15, 2012, July 15, 2012, January 15, 2012, October 15, 2011, July 15, 2011 and January 15, 2011 cash dividends. As of December 31, 2012, the aggregate cumulative unpaid dividends on the outstanding shares of the Series B preferred stock was approximately $29.4 million, which is accrued on our consolidated balance sheet as Series B cumulative exchangeable redeemable preferred stock dividends payable.

On October 15, 2013, we may not have sufficient legally available funds to redeem all or a portion of the Series B preferred stock, plus its accumulated and unpaid dividends. If the holders of shares of Series B preferred stock request that we repurchase all or a portion of their Series B preferred stock we may not be able to do so due to the existing covenants in the Indenture governing our Notes and our lack of legally available funds. We are currently exploring alternatives to restructure or refinance the Series B preferred stock prior to its redemption date. There is no assurance that we will be able to do so. If we fail to discharge our repurchase obligation with respect to the Series B preferred stock upon a valid request, then a voting rights triggering event will occur.

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.

(12) Stockholders' Equity

(a) Reverse Stock Split of Our Class A and Class B Common Stock

On July 5, 2011, we filed the Certificate of Amendment with the Secretary of State of the State of Delaware, which effected a one-for-ten (1-for-10) reverse stock split of our outstanding Class A common stock, par value $0.0001 per share (the Class A common stock) and Class B common stock, par value $0.0001 per share (the Class B common stock). The reverse stock split became effective at 11:59 p.m., Eastern Daylight Time on July 11, 2011.

The reverse stock split was approved by our stockholders at the annual meeting held on June 1, 2011. The trading of our common stock on the NASDAQ Global Market on a split-adjusted basis began at the opening of trading on July 12, 2011, at which time the symbol changed to SBSAD to indicate that the reverse stock split had occurred. The symbol returned to the normal SBSA at the open of the market on August 9, 2011.

As a result of the reverse stock split, each ten (10) outstanding shares of pre-split common stock automatically combined into one (1) share of post-split common stock. No fractional shares were issued. Proportional adjustments were made to our outstanding stock, stock options and other equity awards and to our equity compensation plans to reflect the reverse stock split. The consolidated financial statements for current and prior periods have been adjusted to reflect the change in number of shares.

(b) Series C Convertible Preferred Stock

On December 23, 2004, in connection with the closing of the merger agreement, dated October 5, 2004, with CBS Radio (formerly known as Infinity Media Corporation, CBS Radio), a division of CBS Corporation, Infinity Broadcasting Corporation of San Francisco (Infinity SF) and SBS Bay Area, LLC, a wholly owned subsidiary of SBS, pursuant to which SBS acquired the FCC license of Infinity SF (the CBS Radio Merger), we issued to CBS Radio an aggregate of 380,000 shares of Series C convertible preferred stock, $0.01 par value per share (the Series C preferred stock). Each share of Series C preferred Stock is convertible at the option of the holder into two fully paid and Nonassessable 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. The number of Class A common stock shares reflects a 1-for-10 reverse stock split effectuated by the Company at 11:59 p.m., Eastern Daylight Time on July 11, 2011. In connection with the CBS Radio Merger, we also entered into a registration rights agreement with CBS Radio, pursuant to which CBS Radio may instruct us to file up to three registration statements, on a best efforts basis, with the SEC, providing for the registration for resale of the Class A common stock issuable upon conversion of the Series C preferred stock.

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

(c) Class A and B Common Stock

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

(d) Share-Based Compensation Plans

2006 Omnibus Equity Compensation Plan

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

1999 Stock Option Plans

In September 1999, we adopted an employee incentive stock option plan (the 1999 ISO Plan) and a nonemployee director stock option plan (the 1999 NQ Plan, and together with the 1999 ISO Plan, the 1999 Stock Option Plans). Options granted under the 1999 ISO Plan vest according to the terms determined by the compensation committee of our board of directors, and have a contractual life of up to ten years from the date of grant. Options granted under the 1999 NQ Plan vest 20% upon grant and 20% each year for the first four years from the date of grant. All options granted under the 1999 ISO Plan and the 1999 NQ Plan vest immediately upon a change in control of SBS, as defined therein. A total of 300,000 shares and 30,000 shares of Class A common stock were reserved for issuance under the 1999 ISO Plan and the 1999 NQ Plan, respectively. In September 2009, our 1999 Stock Option Plans expired; therefore, no more options can be granted under these plans.

Accounting for Share-Based Plans

We recognize share-based compensation expense based on the estimated grant date fair value method using the Black-Scholes option pricing model. For these awards, we have recognized compensation expense using a straight-line amortization method (prorated). Share-based compensation expense is based on awards that are ultimately expected to vest. Share-based compensation for the years ended December 31, 2012 and 2011 was reduced for estimated forfeitures. When estimating forfeitures, we consider voluntary termination behaviors, as well as trends of actual option forfeitures. For the years ended December 31, 2012 and 2011, share-based compensation totaled $46 thousand and $30 thousand, respectively.

As of December 31, 2012, there was $21 thousand 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 one year.

Accounting standards require that cash flows resulting from excess tax benefits be classified as a part of cash flows from financing activities. Excess tax benefits are realized tax benefits related to tax deductions for exercised options in excess of the deferred tax asset attributable to stock compensation costs for such options.

During the years ended December 31, 2012 and 2011, no stock options were exercised; therefore, no cash payments were received. In addition, during the years ended December 31, 2012 and 2011, we did not recognize a tax benefit on our stock-based compensation expense due to our valuation allowance on substantially all of our deferred tax assets.

Valuation Assumptions

We calculated the fair value of each option award on the date of grant using the Black-Scholes option pricing model. The per share weighted average fair value of stock options granted to employees during the years ended December 31, 2012 and 2011 were $3.16 and $0.88, respectively. The following weighted average assumptions were used for each respective period:

	2012	2011
Expected term	7 years	7 years
Dividends to common stockholders	None	None
Risk-free interest rate	1.16%	1.76%
Expected volatility	121.49	109.32

Our computation of expected volatility for the years ended December 31, 2012 and 2011 was based on a combination of historical and market-based implied volatility from traded options on our stock. Our computation of expected term in 2012 and 2011 was determined based on historical experience of similar awards, giving consideration to the contractual terms of the stock-based awards, vesting schedules and expectations of future employee behavior. The information provided above results from the behavior patterns of separate groups of employees that have similar historical experience. The interest rate for periods within the contractual life of the award is based on the U.S. Treasury yield curve in effect at the time of grant.

(Continued)

Stock Options and Nonvested Shares 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 of December 31, 2012 and 2011, and changes during the years ended December 31, 2012 and 2011, is presented below (in thousands, except per share data and contractual life):

	Options	Weighted average exercise price	Aggregate intrinsic value	Weighted average remaining contractual life (years)
Outstanding at December 31, 2010	192	$ 59.04		
Granted	10	1.03		
Exercised	—	—		
Forfeited	(43)	81.16		
Outstanding at December 31, 2011	159	49.49		
Granted	10	3.54		
Exercised	—	—		
Forfeited	(27)	78.88		
Outstanding at December 31, 2012	142	$ 40.61	$ 20	4.9
Exercisable at December 31, 2012	140	$ 40.94	$ 20	4.9

During the years 2012 and 2011, no stock options were exercised.

The following table summarizes information about our stock options outstanding and exercisable at December 31, 2012 (in thousands, except per share data and contractual life):

Range of exercise prices	Vested options	Unvested options	Weighted average exercise price	Weighted average remaining contractual life (years)	Options exercisable	Weighted average exercise price
$ 1.03 - 49.99	90	2	$ 13.31	6.6	90	$ 13.21
$ 50.00 - 99.99	36	—	84.34	1.8	36	84.34
$ 100.00 - 117.80	14	—	111.06	1.7	14	111.06
	140	2	$ 40.61	4.9	140	40.94

Nonvested shares (restricted stock) are awarded to employees under our Omnibus Plan. In general, nonvested shares vest over two to five years and are subject to the employees' continuing service. The cost of nonvested shares is determined using the fair value of our common stock on the date of grant. The compensation expense is recognized over the vesting period. As of December 31, 2012 and 2011, there were no nonvested shares outstanding.

(Continued)

(13) Commitments

(a) Leases

We have furniture and fixtures under various capital leases that expire at various dates through 2015. The amounts capitalized under these lease agreements and included in property and equipment at December 31, 2012 and 2011 are as follows (in thousands):

	2012	2011
Building under capital lease	$ —	1,230
Various furniture and fixtures under capital leases	230	230
	230	1,460
Less accumulated depreciation	(135)	(1,330)
	$ 95	130

We lease office space and facilities and certain equipment under operating leases, some of which are with related parties (see note 16), that expire at various dates through 2082. Certain leases provide for base rental payments plus escalation charges for real estate taxes and operating expenses.

At December 31, 2012, future minimum lease payments under such leases are as follows (in thousands):

	Capital lease	Operating lease
Year ending December 31:		
2013	$ 87	5,064
2014	81	4,899
2015	74	3,243
2016	—	2,468
2017	—	2,022
Thereafter	—	7,258
Total minimum lease payments	242	$24,954
Less executory costs	(135)	
	107	
Less interest	(9)	
Present value of minimum lease payments	$ 98	

In connection with an operating lease, we have a standby letter of credit of $0.1 million, which was required under the lease terms.

Total rent expense for each of the years ended December 31, 2012 and 2011 amounted to $3.7 million.

We have agreements to sublease our radio frequencies and portions of our tower sites and buildings. Such agreements provide for payments through 2030. The future minimum rental income to be received under these agreements as of December 31, 2012 is as follows (in thousands):

Year ending December 31:	
2013	$3,450
2014	3,110
2015	1,280
2016	418
2017	233
Thereafter	1,030
	$9,521

(b) Employment and Service Agreements

At December 31, 2012, we are committed to employment and service contracts for certain executives, on-air talent, general managers, and others expiring through 2015. Future payments under such contracts are as follows (in thousands):

Year ending December 31:	
2013	$5,917
2014	2,596
2015	1,476
	$9,989

Included in the future payments schedule is our Chief Executive Officer's (CEO) employment agreement, which may expire on December 31, 2013. Our CEO's annual base salary is $1.25 million, and he is eligible to receive a cash bonus equal to 7.5% of the dollar increase in same station operating income, as defined, for any year, including acquired stations on a pro forma basis. Under the terms of the agreement, the board of directors, in its sole discretion, may increase the CEO's annual base salary and cash bonus.

Certain employees' contracts provide for additional amounts to be paid if station ratings or cash flow targets are met.

(c) 401(k) Profit-Sharing Plan

In September 1999, we adopted a tax-qualified employee savings and retirement plan (the 401(k) Plan). We can make matching and/or profit-sharing contributions to the 401(k) Plan on behalf of all participants at our sole discretion. All employees over the age of 21 that have completed at least 500 hours of service are eligible to participate in the 401(k) Plan. To date, we have not made contributions to this plan.

(Continued)

(d) Other Commitments

At December 31, 2012, we have commitments to vendors that provide us with goods or services. These commitments included services for rating services, programming contracts, software contracts and others. Future payments under such commitments are as follows (in thousands):

Year ending December 31:	
2013	$ 6,373
2014	5,353
2015	5,321
2016	276
2017	72
	$17,395

(14) Income Taxes

Total income tax expense for the years ended December 31, 2012 and 2011 were allocated as follows (in thousands):

	2012	2011
Income from continuing operations	$1,597	6,306

For the years ended December 31, 2012 and 2011, (loss) income before income tax expense consists of the following (in thousands):

	2012	2011
U.S. operations	$ 1,602	33,561
Foreign operations	(1,286)	(3,553)
	$ 316	30,008