

ENTRAVISION COMMUNICATIONS CORP

Form 10-K

March 16, 2006

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

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**FORM 10-K**

ANNUAL REPORT

PURSUANT TO SECTIONS 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

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

For the Fiscal Year Ended December 31, 2005

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 1-15997

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**ENTRAVISION COMMUNICATIONS  
CORPORATION**

(Exact name of registrant as specified in its charter)

Delaware

95-4783236

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(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No.)

2425 Olympic Boulevard, Suite 6000 West

Santa Monica, California 90404

(Address of principal executive offices, including zip code)

Registrant's telephone number, including area code: (310) 447-3870

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

Title of each class	Name of each exchange on which registered
Class A Common Stock	The New York Stock Exchange

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

None

Indicate by check mark whether 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 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 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 the 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 or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates as of June 30, 2005 was approximately \$474,966,593 (based upon the closing price for shares of the registrant's Class A common stock as reported by The New York Stock Exchange for the last trading date prior to that date).

As of March 14, 2006, there were 59,836,013 shares, \$0.0001 par value per share, of the registrant's Class A common stock outstanding, 27,678,533 shares, \$0.0001 par value per share, of the registrant's Class B common stock outstanding and 17,352,729 shares, \$0.0001 par value per share, of the registrant's Class U common stock outstanding.

Portions of the registrant's Proxy Statement for the 2006 Annual Meeting of Stockholders scheduled to be held on May 25, 2006 are incorporated by a reference in Part III hereof.

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**ENTRAVISION COMMUNICATIONS CORPORATION**

**FORM 10-K FOR THE FISCAL YEAR ENDED DECEMBER 31, 2005**

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**FORWARD-LOOKING STATEMENTS**

This document contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. All statements other than statements of historical fact are forward-looking statements for purposes of federal and state securities laws, including, but not limited to, any projections of earnings, revenue or other financial items; any statements of the plans, strategies and objectives of management for future operations; any statements concerning proposed new services or developments; any statements regarding future economic conditions or performance; any statements of belief; and any statements of assumptions underlying any of the foregoing.

Forward-looking statements may include the words may, could, will, estimate, intend, continue, believe, expect or anticipate or other similar words. These forward-looking statements present our estimates and assumptions only as of the date of this annual report. Except for our ongoing obligation to disclose material information as required by the federal securities laws, we do not intend, and undertake no obligation, to update any forward-looking statement.

Although we believe that the expectations reflected in any of our forward-looking statements are reasonable, actual results could differ materially from those projected or assumed in any of our forward-looking statements. Our future financial condition and results of operations, as well as any forward-looking statements, are subject to change and inherent risks and uncertainties. Some of the key factors impacting these risks and uncertainties include, but are not limited to:

risks related to our history of operating losses, our substantial indebtedness or our ability to raise capital;

provisions of the agreements governing our debt instruments that may restrict the operation of our business;

cancellations or reductions of advertising, whether due to a general economic downturn or otherwise;

our relationship with Univision Communications Inc.;

the overall success of our acquisition strategy, which includes developing media clusters in key U.S. Hispanic markets, and the integration of any acquired assets with our existing business;

the impact of rigorous competition in Spanish-language media and in the advertising industry generally; and

industry-wide market factors and regulatory and other developments affecting our operations.

For a detailed description of these and other factors that could cause actual results to differ materially from those expressed in any forward-looking statement, please see Risk Factors, beginning at page 27 below.

**ITEM 1. BUSINESS**

*The discussion of our business is as of the date of filing this report, unless otherwise indicated.*

## **Overview**

Entravision Communications Corporation and its wholly owned subsidiaries, or Entravision, is a diversified Spanish-language media company utilizing a combination of television, radio and outdoor advertising operations to reach approximately 70% of Hispanic consumers across the United States, as well as the border markets of Mexico. We own and/or operate 48 primary television stations, a majority of which is located in the southwestern United States, including several key U.S./Mexican border markets. Entravision is the largest affiliate group of both the top-ranked Univision television network and Univision's TeleFutura network, with television stations in 20 of the nation's top 50 U.S. Hispanic markets. Univision is a key source of programming for our television broadcasting business and we consider it to be a valuable strategic partner of ours.

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We own and operate one of the largest groups of primarily Spanish-language radio stations in the United States. We own and operate 52 radio stations in 20 U.S. markets. Our radio stations consist of 40 FM and 12 AM stations located in Arizona, California, Colorado, Florida, Nevada, New Mexico and Texas.

Our outdoor advertising operations consist of approximately 10,600 advertising faces concentrated primarily in high-density urban neighborhoods in Los Angeles and New York.

We generate revenue from sales of national and local advertising time on television and radio stations and advertising on our billboards. Advertising rates are, in large part, based on each medium's ability to attract audiences in demographic groups targeted by advertisers. We recognize advertising revenue when commercials are broadcast and when outdoor advertising space is provided. We generally do not obtain long-term commitments from our advertisers and, consequently, they may cancel, reduce or postpone orders without penalties. We pay commissions to agencies for local, regional and national advertising. For contracts directly with agencies, we record commissions as deductions from gross revenue.

Our net revenue for the year ended December 31, 2005 was approximately \$281 million. Of that amount, revenue generated by our television segment accounted for 52%, revenue generated by our radio segment accounted for 36% and revenue generated by our outdoor segment accounted for 12%.

Our primary expenses are employee compensation, including commissions paid to our sales staffs and amounts paid to our national representative firms, as well as expenses for marketing, promotion and selling, technical, local programming, engineering, leasing, general and administrative and depreciation and amortization. Our local programming costs for television consist primarily of costs related to producing a local newscast in most of our markets.

## **About Our Company**

Our principal executive offices are located at 2425 Olympic Boulevard, Suite 6000 West, Santa Monica, California 90404, and our telephone number is (310) 447-3870. Our corporate website is [www.entravision.com](http://www.entravision.com).

We were organized as a Delaware limited liability company in January 1996 to combine the operations of our predecessor entities. On August 2, 2000, we completed a reorganization from a limited liability company to a Delaware corporation. On August 2, 2000, we also completed an initial public offering of our Class A common stock, which is listed on The New York Stock Exchange under the trading symbol EVC.

Univision currently owns less than 15% of our common stock on a fully-converted basis. As of December 31, 2005, Univision owned approximately 30% of our common stock on a fully-converted basis. In connection with its merger with Hispanic Broadcasting Corporation in September 2003, Univision entered into an agreement with the U.S. Department of Justice, or DOJ, pursuant to which Univision agreed, among other things, to ensure that its percentage ownership of our company will not exceed 15% by March 26, 2006 and 10% by March 26, 2009. In January 2006, we sold the assets of radio stations KBRG-FM and KLOK-AM, serving the San Francisco/San Jose, California market, to Univision for \$90 million. Univision paid the full amount of the purchase price in the form of approximately 12.6 million shares of our Class U common stock held by Univision. Subsequently, in March 2006, we repurchased 7 million shares of our Class U common stock held by Univision for \$51.1 million.



The Class U common stock has limited voting rights, does not include the right to elect directors and is automatically convertible into shares of our Class A common stock in connection with any transfer to a third party that is not an affiliate of Univision. As the holder of all of our issued and outstanding Class U common stock, Univision currently has the right to approve any merger, consolidation or other business combination involving our company, any dissolution of our company or any assignment of the Federal Communications Commission, or FCC, licenses for any of our Univision-affiliated television stations. For a more complete discussion of our relationship with Univision, please see Relationship with Univision, beginning at page 39 below and for a discussion of various risks related to our relationship with Univision, please see Risk Factors, beginning at page 27 below.

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### **The Hispanic Market Opportunity in the United States**

Our media assets target densely-populated and fast-growing Hispanic markets in the United States. We operate media properties in 12 of the 15 highest-density U.S. Hispanic markets. In addition, among the top 25 U.S. Hispanic markets, we operate media properties in 11 of the 15 fastest-growing markets. We believe that targeting the U.S. Hispanic market will translate into strong revenue growth for the foreseeable future for the following reasons:

*U.S. Hispanic Population Growth.* Our audience consists primarily of Hispanics, one of the fastest-growing segments of the U.S. population and, by current U.S. Census Bureau estimates, now the largest minority group in the United States. Approximately 43 million Hispanics live in the United States, accounting for approximately 14% of the total U.S. population. The overall Hispanic population is growing at over seven times the rate of the non-Hispanic population and is expected to grow to 72.1 million, or approximately 20% of the total U.S. population, by 2025. Approximately 51% of the total future growth in the U.S. population through 2025 is expected to come from the Hispanic community.

*Spanish-Language Use.* Approximately 70% of all Hispanics in the United States speak some Spanish at home. The number of U.S. Hispanics that speak some Spanish at home is expected to grow from 29.9 million in 2005 to 48.7 million in 2025. We believe that the strong Spanish-language use among Hispanics indicates that Spanish-language media will continue to be an important source of news, sports and entertainment for Hispanics and an important vehicle for marketing and advertising.

*Increasing U.S. Hispanic Buying Power.* The U.S. Hispanic population is estimated to have accounted for total consumer expenditures of over \$715 billion in 2005, an increase of 51% since 2000. Hispanics are expected to account for over \$1 trillion in consumer expenditures by 2010, and by 2025 Hispanics are expected to account for approximately \$3.1 trillion in consumer expenditures, or 14% of total U.S. consumer spending. Hispanic buying power is expected to grow at over five times the rate of the Hispanic population growth by 2025. We believe that these factors make Hispanics an attractive target audience for many major advertisers.

*Attractive Profile of U.S. Hispanic Consumers.* We believe that the demographic profile of the U.S. Hispanic audience makes it attractive to advertisers. We believe that the larger size and younger age of Hispanic households (averaging 3.5 persons and 26.5 years of age as compared to the U.S. non-Hispanic averages of 2.4 persons and 38.0 years of age) lead Hispanics to spend more per household on many categories of goods and services. Although the average U.S. Hispanic household has less disposable income than the average U.S. household, the average U.S. Hispanic household spends 15% more per year than the average U.S. non-Hispanic household on food at home, 79% more on children's clothing, 50% more on footwear and 35% more on laundry and household cleaning products. We expect Hispanics to continue to account for a disproportionate share of growth in spending nationwide in many important consumer categories as the U.S. Hispanic population and its disposable income continue to grow.

*Spanish-Language Advertising.* Over \$3.2 billion of total advertising expenditures in the United States were placed in Spanish-language media in 2005, of which approximately 86% was placed in Spanish-language television and radio advertising. We believe that major advertisers have found that Spanish-language media are more cost-effective means to target the growing U.S. Hispanic audience than English-language media.

### **Business Strategy**

We seek to increase our advertising revenue through the following strategies:

*Effectively Use Our Networks and Media Brands.* We are the largest affiliate group of both the top-ranked Univision television network and Univision's TeleFutura network. Univision's primary network is the most watched television network (English- or Spanish-language) among U.S. Hispanic households. Univision's primary network, together with its TeleFutura Network, represent an approximately 80% share of the U.S. Spanish-language network television prime time audience as of December 2005. Univision makes its networks

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Spanish-language programming available to our television stations 24 hours a day, including a prime time schedule on its primary network of substantially all first-run programming throughout the year.

We believe that the breadth and diversity of Univision's programming, combined with our local news and community-oriented segments, provide us with an advantage over other Spanish-language and English-language broadcasters in reaching U.S. Hispanic viewers. Our local content is designed to brand each of our stations as the best source for relevant community information that accurately reflects local interests and needs.

We operate our radio network using three formats designed to appeal to different listener tastes. We format the programming of our network and radio stations in an effort to capture a substantial share of the U.S. Hispanic audience in each of our radio markets. In markets where competing stations already offer programming similar to our network formats, or where we otherwise identify an available niche in the marketplace, we run alternative programming that we believe will appeal to local listeners.

*Invest in Media Research and Sales.* We believe that continued use of industry-accepted ratings and surveys will allow us further to increase our advertising rates. We use standard industry ratings and surveys from third parties, including Nielsen Media Research, Arbitron and the Traffic Audit Bureau to provide a more accurate measure of consumers. We believe that our focused research and sales efforts will enable us to continue to achieve significant revenue and cash flow growth.

*Continue to Benefit from Strong Management.* We believe that we have one of the most experienced management teams in the industry. Walter Ulloa, our co-founder, Chairman and Chief Executive Officer, Philip Wilkinson, our co-founder, President and Chief Operating Officer, John DeLorenzo, our Executive Vice President and Chief Financial Officer, Jeffery Liberman, the President of our Radio Division, and Chris Young, the President of our Outdoor Division, have an average of more than 20 years of media experience. We intend to continue to build and retain our key management personnel and to capitalize on their knowledge and experience in the Spanish-language markets.

*Emphasize Local Content, Programming and Community Involvement.* We believe that local content and service to the community in each of our markets is an important part of building our brand identity within those markets. By combining our local news, local content and quality network programming, we believe that we have a significant competitive advantage. We also believe that our active community involvement, including station remote broadcasting appearances at client events, concerts and tie-ins to major events, helps to build station awareness and identity as well as viewer and listener loyalty.

*Take Advantage of Market Cross-Selling and Cross-Promotion.* We believe that our uniquely diversified media asset portfolio provides us with a competitive advantage in targeting the U.S. Hispanic consumer. In many of our markets, we offer advertisers the ability to reach potential customers through a combination of television, radio and outdoor advertising. Currently, we operate some combination of television, radio and outdoor advertising in 11 markets. Where possible, we also combine our television, radio and outdoor advertising operations and management to create synergies and achieve cost savings.

*Target Other Attractive U.S. Hispanic Markets and Fill-In Acquisitions.* We believe that our knowledge of, and experience with, the U.S. Hispanic marketplace will enable us to continue to identify acquisitions in the television, radio and outdoor advertising markets. Since our inception, we have used our management expertise, programming, local involvement and brand identity to improve our acquired media properties. Please see [Acquisition and Disposition Strategies](#) below.

**Acquisition and Disposition Strategies**

Our acquisition strategy focuses on increasing our presence in those markets in which we already compete, as well as expanding our operations into U.S. Hispanic markets where we do not own properties. We target fast-growing and high-density U.S. Hispanic markets. These include many markets in the southwestern United States,

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including Texas, California and various other markets along the United States/Mexican border. In addition, we pursue other acquisition opportunities in key strategic markets, or those which otherwise support our long-term growth plans.

One of our goals is to continue to create and grow media clusters within these target markets, featuring both Univision and TeleFutura television stations, together with a strong radio presence. We believe that these clusters provide unique cross-selling and cross-promotional opportunities, making Entravision an attractive option for advertisers wishing to reach the U.S. Hispanic consumer. Accordingly, in addition to targeting stations in U.S. Hispanic markets where we do not own properties, we focus on potential acquisitions of additional stations in our existing markets, particularly radio stations in those markets where we currently have only television stations.

In the past year, we made several acquisitions in furtherance of the strategy outlined above. These acquisitions demonstrate our continued efforts to target strategic U.S. Hispanic markets and to fill out our existing media clusters with additional quality assets:

in February 2005, we acquired television stations KVTF-CA and KTFV-CA in the McAllen, Texas market and television station KETF-CA in the Laredo, Texas market, for an aggregate of approximately \$3.8 million, giving us both a Univision affiliate and a TeleFutura affiliate in each of these markets, as well as four FM radio stations in the McAllen market;

also in February 2005, we acquired radio station KAIQ-FM in the Lubbock, Texas market for approximately \$1.7 million, giving us one FM and one AM radio station in the Lubbock market in addition to our Univision affiliate;

in June 2005, certain of our Mexican affiliates acquired all of the outstanding capital stock of the television licensee of XHRIO-TV in Matamoros, Tamaulipas, Mexico, serving the McAllen, Texas market, as well as substantially all of the assets related to the station, for an aggregate of approximately \$13.2 million. In August 2005, XHRIO-TV was launched as a Fox affiliate in that market; and

in February 2006, we acquired the assets of television stations KTIZ-LP, KSFE-LP, KLIA-LP and KFTN-LP in the McAllen, Texas market in exchange for the assets of television station KTFV-CA in the McAllen, Texas market and approximately \$0.8 million.

In a strategic effort to focus our resources on strengthening existing clusters and expanding into new U.S. Hispanic markets, we regularly review our portfolio of media properties and seek to divest non-core assets in markets where we do not see the opportunity to grow to scale and build out full clusters. In January 2006, we sold the assets of radio stations KBRG-FM and KLOK-AM, serving the San Francisco/San Jose, California market, to Univision for \$90 million. Univision paid the full amount of the purchase price in the form of approximately 12.6 million shares of our Class U common stock held by Univision.

We have a history of net losses that may impact, among other things, our ability to implement our growth strategies. Although we had a net profit for the years ended December 31, 2004 and 2003, we had a net loss of approximately \$9.7 million for the year ended December 31, 2005. Please see Risk Factors, beginning at page 27.

## **Television**

### **Overview**

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We own and/or operate Univision-affiliated television stations in 20 of the top 50 Hispanic markets in the United States. Our television operations are the largest affiliate group of the Univision networks. Univision's primary network is the leading Spanish-language network in the United States, reaching 98% of all U.S. Hispanic households. Univision's primary network is the most watched television network (English- or Spanish-language) among U.S. Hispanic households. Univision's primary network, together with its TeleFutura Network, represent

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an approximately 80% share of the U.S. Spanish-language network television prime time audience as of December 2005. We operate both Univision and TeleFutura affiliates in 18 of our 23 television markets. Univision's networks make their Spanish-language programming available to our Univision-affiliated stations 24 hours a day. Univision's prime time schedule on its primary network consists of substantially all first-run programming throughout the year.

### **Television Programming**

*Univision Primary Network Programming.* Univision directs its programming primarily toward a young, family-oriented audience. It begins daily with *Despierta America* and another talk show, Monday through Friday, followed by a game show and novelas. In the late afternoon and early evening, Univision offers an entertainment magazine, a news magazine and national news, in addition to local news produced by our television stations. During prime time, Univision airs novelas, variety shows, talk shows, comedies, news magazines and reality shows, as well as specials. Prime time is followed by late news and a late night comedy show. Overnight programming consists primarily of repeats of programming aired previously on the network. Weekend daytime programming begins with children's programming, and is generally followed by sports, reality, teen lifestyle shows and movies.

Approximately eight to ten hours of programming per weekday, including a substantial portion of weekday prime time, are currently programmed with novelas supplied primarily by Grupo Televisa, S.A. de C.V., or Televisa, and Corporacion Venezolana de Television, C.A., or Venevision. Although novelas have been compared to daytime soap operas on ABC, NBC or CBS, the differences are significant. Novelas, originally developed as serialized books, have a beginning, middle and end, generally run five days per week and conclude four to eight months after they begin. Novelas also have a much broader audience appeal than soap operas, delivering audiences that contain large numbers of men, children and teens, in addition to women.

*TeleFutura Network Programming.* Univision's other 24-hour general-interest Spanish-language broadcast network, TeleFutura, is programmed to meet the diverse preferences of the multi-faceted U.S. Hispanic community. TeleFutura's programming includes sports (including boxing, soccer and a nightly wrap-up at 11 p.m. similar to ESPN's programming), movies (including a mix of English-language movies translated into Spanish) and novelas not run on Univision's primary network, as well as reruns of popular novelas broadcast on Univision's primary network.

*Entravision Local Programming.* We believe that our local news brands our stations in our television markets. We shape our local news to relate to and inform our target audiences. In ten of our television markets, our early local news is ranked first or second among competing local newscasts regardless of language in its designated time slot among viewers 18-34 years of age. We have made substantial investments in people and equipment in order to provide our local communities with quality newscasts. Our local newscasts have won numerous awards, and we strive to be the most important community voice in each of our local markets. In several of our markets, we believe that our local news is the only significant source of Spanish-language daily news for the Hispanic community.

*Network Affiliation Agreements.* Substantially all of our television stations are Univision- or TeleFutura-affiliated television stations. Our network affiliation agreements with Univision provide certain of our stations with the exclusive right to broadcast Univision's primary network and TeleFutura programming in their respective markets. These long-term affiliation agreements each expire in 2021, and can be renewed for multiple, successive two-year terms at Univision's option, subject to our consent. Under the affiliation agreements, we generally retain the right to sell approximately six minutes per hour of the available advertising time on Univision's primary network, and approximately four and a half minutes per hour of the available advertising time on the TeleFutura network. Those allocations are subject to adjustment from time to time by Univision.



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Our network affiliation agreement with the United Paramount Network, or UPN, gives us the right to provide 13 hours per week of UPN network programming on XUPN-TV serving the Tecate/San Diego market.

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The affiliation agreement provides for a ten-year term to expire in October 2009, but we expect that the affiliation agreement will terminate in September 2006 as a result of the proposed merger of the UPN and WB networks announced in January 2006. As a result of the merger, a new television network, called the CW, is being proposed by the parties to replace the UPN and WB networks in September 2006. We anticipate that Tribune Media, which owns the WB affiliate in San Diego, will obtain the rights to broadcast the CW network programming in this market. Consequently, we are exploring a variety of strategies for XUPN to acquire 13 hours per week of replacement programming. A related participation agreement between us and UPN grants UPN a 20% interest in the appreciation of XUPN-TV above \$35 million upon certain liquidity events as defined in the agreement.

XHAS-TV broadcasts Telemundo Network Group LLC, or Telemundo, network programming serving the Tijuana/San Diego market pursuant to a network affiliation agreement. Our network affiliation agreement with Telemundo gives us the right to provide Telemundo network programming on XHAS-TV for a six-year period expiring in July 2007. The affiliation agreement grants Telemundo a 20% interest in the appreciation of XHAS-TV above \$31 million, plus capital expenditures and certain other adjustments, upon certain liquidity events as defined in the agreement. We also granted Telemundo an option to purchase our ownership interest in KTCD-LP at a purchase price equal to our cost for such interest, if we breach the agreement.

XHRIO-TV broadcasts Fox Broadcasting Company, or Fox, network programming serving the Matamoros/Harlingen-Weslaco-Brownsville-McAllen market pursuant to a network affiliation agreement. Pursuant to our network affiliation agreement with Fox, we have the right to provide Fox network programming on XHRIO-TV through June 30, 2010. The network affiliation agreement may be extended for successive one-year terms at Fox's option, subject to our consent.

We cannot guarantee that our current network affiliation agreements will be renewed beyond their current expiration dates under their current terms or at all.

*Marketing Agreements.* Our marketing and sales agreement with Univision gives us the right through 2021 to manage the marketing and sales operations of Univision-owned TeleFutura affiliates in six markets—Albuquerque, Boston, Denver, Orlando, Tampa and Washington, D.C.—where we currently own and operate a Univision affiliate.

Our joint marketing and programming agreement with Televisa and certain of its affiliates gives us the right through June 2006 to manage the programming, advertising, sales and certain operational functions of XETV-TV, Channel 6, the Fox network affiliate serving the Tijuana/San Diego market.

*Long-Term Time Brokerage Agreements.* We operate each of XUPN-TV, Channel 49, the UPN network affiliate serving the Tecate/San Diego market, XHAS-TV, Channel 33, the Telemundo network affiliate serving the Tijuana/San Diego market, and XHRIO-TV, Channel 2, the Fox network affiliate serving the Matamoros/Harlingen-Weslaco-Brownsville-McAllen market under long-term time brokerage agreements. Under those agreements, in combination with certain of our Mexican affiliates and subsidiaries, we provide the programming and related services available on these stations, but the stations retain absolute control of the content and other broadcast issues. These long-term time brokerage agreements expire in 2008, 2030 and 2035, respectively, and each provides for automatic, perpetual 30-year renewals unless both parties consent to termination. Each of these agreements provides for substantial financial penalties should the other party attempt to terminate prior to its expiration without our consent, and they do not limit the availability of specific performance as a remedy for any such attempted early termination.

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**Our Television Station Portfolio**

The following table lists information concerning each of our owned and/or operated television stations and its respective market:

Market	Market Rank (by Hispanic Households)	Total Households	Hispanic Households	% Hispanic Households	Call Letters, Channel(1)	Programming
Harlingen-Weslaco-Brownsville-McAllen, Texas	10	318,800	262,970	82.5%	KNVO-TV, Channel 48	Univision
					KVTF-CA, Channel 20 (2)	TeleFutura
					KTIZ-LP, Channel 52	TeleFutura
					KSFF-LP, Channel 67	TeleFutura
					KFTN-CA, Channel 30	TeleFutura
					KTFV-CA, Channel 32	TeleFutura
Albuquerque-Santa Fe, New Mexico	12	653,680	225,200	34.5%	KLUZ-TV, Channel 41	Univision
					KTFQ-TV, Channel 14 (3)	TeleFutura
					KTFA-LP, Channel 48	Home Shopping Network
San Diego, California	13	1,026,160	215,630	21.0%	KBNT-CA, Channel 17 (2)	Univision
					KHAX-LP, Channel 49	Univision
					KDTF-LP, Channel 36	TeleFutura
					KTCD-LP, Channel 46	Univision
El Paso, Texas	15	290,540	209,700	72.2%	KINT-TV, Channel 26	Univision
					KTFN-TV, Channel 65	TeleFutura
Denver-Boulder, Colorado	16	1,415,180	201,730	14.3%	KCEC-TV, Channel 50	Univision
					K43FN, Channel 43	Univision
					KTFD-TV, Channel 14 (3)	TeleFutura
					KDVT-LP, Channel 36	America's Collectibles Network
Orlando-Daytona Beach-Melbourne, Florida	17	1,345,700	154,060	11.4%	WVEN-TV, Channel 26	Univision
					W46DB, Channel 46	Univision
					WOTF-TV, Channel 43 (3) WVCI-LP, Channel 16	TeleFutura America's Collectibles Network
Tampa-St. Petersburg (Sarasota), Florida	19	1,710,400	150,410	8.8%	WVEA-TV, Channel 62	Univision

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					WFTT-TV, Channel 50 (3)	TeleFutura
					WVEA-LP, Channel 46	Home Shopping Network
Washington, D.C.	20	2,252,550	149,260	6.6%	WMDO-CA, Channel 47 (2)	TeleFutura
					WFDC-TV, Channel 14 (3)	Univision English-Language
					WJAL-TV, Channel 68	
Las Vegas, Nevada	22	651,110	117,750	18.1%	KINC-TV, Channel 15	Univision
					KNTL-LP, Channel 47	Univision
					KWWB-LP, Channel 45	Univision
					KELV-LP, Channel 27	TeleFutura
Boston, Massachusetts	23	2,375,310	116,760	4.9%	WUNI-TV, Channel 27	Univision
					WUTF-TV, Channel 66 (3)	TeleFutura
Corpus Christi, Texas	26	192,380	101,390	52.7%	KORO-TV, Channel 28	Univision
					KCRP-CA, Channel 41 (2)	TeleFutura
Hartford-New Haven, Connecticut	29	1,013,350	72,020	7.1%	WUVN-TV, Channel 18	Univision
					WUTH-CA, Channel 47 (2)	TeleFutura
Monterey-Salinas-Santa Cruz, California	33	218,080	62,530	28.7%	KSMS-TV, Channel 67	Univision
					KDJT-CA, Channel 33 (2)	TeleFutura
Laredo, Texas	34	64,410	59,920	93.0%	KLDO-TV, Channel 27	Univision
					KETF-CA, Channel 25 (2)	TeleFutura
Yuma, Arizona-El Centro, California	35	103,170	55,180	53.5%	KVYE-TV, Channel 7	Univision
					KAJB-TV, Channel 54 (3)	TeleFutura
Colorado Springs-Pueblo, Colorado	37	315,010	48,710	15.5%	KGHB-CA, Channel 27 (2)	Univision
Odessa-Midland, Texas	38	135,100	48,410	35.8%	KUPB-TV, Channel 18	Univision

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Market	Market Rank (by Hispanic Households)	Total Households	Hispanic Households	% Hispanic Households	Call Letters, Channel(1)	Programming
Palm Springs, California	39	142,730	47,740	33.4%	KVER-CA, Channel 4 (2)	Univision
					KVES-LP, Channel 28	Univision
					KEVC-CA, Channel 5 (2)	TeleFutura
Santa Barbara-Santa Maria- San Luis Obispo, California	43	224,290	43,530	19.4%	KPMR-TV, Channel 38	Univision
					K10OG, Channel 10	TeleFutura
					K17GD, Channel 17	TeleFutura
					K28FK, Channel 28	TeleFutura
					K35ER, Channel 35	TeleFutura
Lubbock, Texas	44	152,150	43,440	28.6%	KTSB-LP, Channel 43	TeleFutura
					KBZO-LP, Channel 51	Univision
Reno, Nevada	54	255,090	29,140	11.4%	KNVV-LP, Channel 41	Univision
Springfield-Holyoke, Massachusetts	58	264,840	25,890	9.8%	KNCV-LP, Channel 48	Univision
					WHTX-LP, Channel 43	Univision
San Angelo, Texas	77	53,330	15,070	28.3%	KEUS-LP, Channel 31	Univision
					KANG-CA, Channel 41 (2)	TeleFutura
Tecate, Baja California, Mexico (San Diego)					XUPN-TV, Channel 49 (4)	UPN
Tijuana, Baja California, Mexico (San Diego)					XHAS-TV, Channel 33	Telemundo
					(4) XETV-TV, Channel 6 (3)	Fox
Matamoros, Tamaulipas, Mexico (Harlingen-Weslaco-Brownsville-McAllen)					XHRIO-TV, Channel 2 (4)	Fox

Source: Nielsen Media Research 2006 universe estimates.

- (1) With the exception of KUPB-TV, Odessa-Midland, Texas, the FCC has granted to each of our owned full-service analog television stations a paired channel to deliver our programming on a digital basis. These paired channel authorizations will remain in place until such time as we are required to operate solely on a digital basis. We are currently broadcasting on all of the paired digital stations pursuant to FCC authorizations that allow us to do so using facilities at lower power levels than our FCC permits otherwise call for. No later than July 1, 2006, we are required to operate all of our digital stations at the power levels provided for in their permits. Pursuant to a recently enacted statute, we will be required to return our analog authorizations and discontinue analog broadcasting on or before February 17, 2009.
- (2) CA in call letters indicates station is under Class A television service.
- (3) We run the sales and marketing operations of this station under a marketing and sales arrangement.
- (4) We hold a minority, limited voting interest (neutral investment) in the entity that directly or indirectly holds the broadcast license for this station. Through that entity, we provide the programming and related services available on this station under a time brokerage arrangement. The station retains control of the contents and other broadcast issues.

**Television Advertising**

Substantially all of the revenue from our television operations is derived from local and national advertising and, in two markets, network compensation.

*Local.* Local advertising revenue is generated from commercial airtime and is sold directly by the station to an in-market advertiser or its agency. In 2005, local advertising accounted for approximately 53% of our total television revenue.

*National.* National advertising revenue represents commercial time sold to a national advertiser within a specific market by Univision, our national representative firm. For these sales, Univision is paid a 15% commission on the net revenue from each sale (gross revenue less agency commission). We target the largest national Spanish-language advertisers that collectively purchase the greatest share of national advertisements through Univision. The Univision representative works closely with each station's national sales manager. This has enabled us to secure major national advertisers, including Ford Motor Company, General Motors, Dodge, Toyota, Verizon, SBC, McDonald's, Jack in the Box, Wal-Mart, Albertson's and Safeway. We also added significant new national advertising accounts in 2005, including Movida, Mazda, Bansefi, Sprint and PNC Bank. We have a similar national advertising representative arrangement with Telemundo. XUPN and XETV are

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represented by Blair Television Inc., and XHRIO is represented by Petry Television. In 2005, national advertising accounted for approximately 46% of our total television revenue.

*Network.* Network compensation represents compensation for broadcasting network programming in two television markets. In 2005, network advertising accounted for approximately 1% of our total television revenue.

## **Television Marketing/Audience Research**

We derive our revenue primarily from selling advertising time. The relative advertising rates charged by competing stations within a market depend primarily on five factors:

the station's ratings (households or people viewing its programs as a percentage of total television households or people in the viewing area);

audience share (households or people viewing its programs as a percentage of households or people actually watching television at a specific time);

the time of day the advertising will run;

the demographic qualities of a program's viewers (primarily age and gender); and

competitive conditions in the station's market, including the availability of other advertising media.

Nielsen ratings provide advertisers with the industry-accepted measure of television viewing. Nielsen offers a general market service measuring all television audience viewing, as well as a separate service to specifically measure U.S. Hispanic audience viewing at the local market level. In recent years, Nielsen has modified the methodology of its general market service in an effort to more accurately measure U.S. Hispanic viewing by using language spoken in the home as a control characteristic of its metered market sample. Nielsen has also added weighting by language as part of its local metered market methodology. Of the metered markets in which we operate, to date only Albuquerque, Denver and San Diego have qualified for this language weighting, although we believe that other markets may qualify in future years. We believe that this new methodology ultimately will result in ratings gains for us in those markets, allowing us further to increase our advertising rates and narrow any disparities that have historically existed between English-language and Spanish-language advertising rates. We have made significant investments in experienced sales managers and account executives and have provided our sales professionals with research tools to continue to attract major advertisers.

The Nielsen rating services that we use are described below:

*Nielsen Hispanic Station Index.* This service measures U.S. Hispanic household and individual viewing information at the local market level. Each sample also reflects the varying levels of language usage by Hispanics in each market in order to reflect more

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accurately the Hispanic household population in the relevant market. Nielsen Hispanic Station Index only measures the audience viewing of U.S. Hispanic households, that is, according to Nielsen, households where the head of the household is of Hispanic descent or origin. Although this service offers improvements over previous measurement indices, we believe that it still under-reports the number of viewers watching our programming because we have viewers who do not live in Nielsen-defined Hispanic households.

*Nielsen Station Index.* This service measures local station viewing of all households and individuals in a specific market. This ratings service, however, is not language-stratified in markets in which we operate other than Albuquerque, Denver and San Diego, and we believe that it generally under-represents Spanish-speaking households. As a result, we believe that this service typically under-reports viewing of Spanish-language television. Despite this limitation, the Nielsen Station Index demonstrates that many of our broadcast stations achieve total market ratings that are fully comparable with their English-language counterparts, with ten of our television stations ranking either first or second in their respective markets in prime time among viewers 18-34 years of age.



**Table of Contents****Television Competition**

We face intense competition in the broadcasting business. In each local television market, we compete for viewers and revenue with other local television stations, which are typically the local affiliates of the four principal English-language television networks, NBC, ABC, CBS and Fox and, in certain cities, UPN and the WB, which are expected to be replaced by a new network, the CW, in September 2006. In certain markets (other than San Diego), we also compete with the local affiliates or owned and operated stations of Telemundo, the Spanish-language television network that was acquired by NBC in 2002, as well as TV Azteca, the second largest producer of Spanish-language programming in the world.

We also directly or indirectly compete for viewers and revenue with both English- and Spanish-language independent television stations, other video media, suppliers of cable television programs, direct broadcast systems, newspapers, magazines, radio and other forms of entertainment and advertising. In addition, in certain markets we operate radio stations that indirectly compete for local and national advertising revenue with our television business.

We believe that our primary competitive advantage is the quality of the programming we receive through our affiliation with Univision. Over the past five years, Univision's programming has consistently ranked first in prime time television among all U.S. Hispanic adults. In addition, Univision's primary network and the TeleFutura Network together have maintained superior audience ratings among all U.S. Hispanic households when compared to both Spanish-language and English-language broadcast networks, as shown by the historical Nielsen ratings below:

<u>Network</u>	<u>2004-2005</u>	<u>2003-2004</u>	<u>2002-2003</u>	<u>2001-2002</u>	<u>2000-2001</u>
Univision	18.8	18.0	18.1	19.4	19.6
TeleFutura	3.2	3.4	2.9	2.0	
ABC	3.1	3.5	3.6	3.5	4.2
CBS	2.7	3.1	2.9	3.0	3.4
NBC	2.7	3.6	3.4	3.9	4.0
Fox	3.9	5.7	4.7	4.6	5.3
Telemundo	5.2	5.2	4.4	5.3	4.9

Source: Nielsen Hispanic Television Index (NHTI) (full broadcast seasons)

NBC-owned Telemundo is the second-largest Spanish-language television network in the United States. As of December 31, 2005, Telemundo had total coverage reaching approximately 92% of all Hispanic households in its markets.

We also benefit from operating in three different media: television, radio and outdoor advertising. While we have not engaged in any significant cross-selling program, we do take advantage of opportunities for cross-promotion of our stations and other media outlets.

The quality and experience of our management team is a significant strength of our company. However, our growth strategy may place significant demands on our management, working capital and financial resources. We may be unable to identify or complete acquisitions due to strong competition among buyers, the high valuations of media properties and the need to raise additional financing and/or equity. Some of our competitors have more stations than we have, and may have greater resources than we do. While we compete for acquisitions effectively within

many markets and within a broad price range, our larger competitors nevertheless may price us out of certain acquisition opportunities.

## **Radio**

### **Overview**

We own and operate 52 radio stations, 51 of which are located in the top 50 Hispanic markets in the United States. Our radio stations broadcast into markets with an aggregate of approximately 47% of the Hispanic population in the United States. Our radio operations combine network and local programming with local time

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slots available for advertising, news, traffic, weather, promotions and community events. This strategy allows us to provide quality programming with significantly lower costs of operations than we could otherwise deliver solely with independent programming.

### **Radio Programming**

*Radio Network.* We broadcast into markets with an aggregate of over 18 million U.S. Hispanics. Our radio network broadcasts into 16 of the 20 markets that we serve. Our network allows advertisers with national product distribution to deliver a uniform advertising message to the growing Hispanic market around the country in an efficient manner and at a cost that is generally lower than our English-language counterparts.

Although our network has a broad geographic reach, technology allows our stations to offer the necessary local feel and to be responsive to local clients and community needs. Designated time slots are used for local advertising, news, traffic, weather, promotions and community events. The audience gets the benefit of a national radio sound along with local content. To further enhance this effect, our on-air personalities frequently travel to participate in local promotional events. For example, in selected key markets our on-air personalities appear at special events and client locations. We promote these events as *remotes* to bond the national personalities to local listeners. Furthermore, all of our stations can disconnect from the networks and operate independently in the case of a local emergency or a problem with our central satellite transmission.

*Radio Formats.* Our radio network produces three music formats that are simultaneously distributed via satellite with a digital CD-quality sound to our stations. These three formats each appeal to different listener preferences:

Super Estrella is a music-driven, pop and alternative Spanish-rock format, targeting primarily Hispanic listeners 18-34 years of age;

Radio Tricolor is a personality-driven format that includes *Píolin por la Mañana* in five markets, *Ya Parate* in the remaining markets and Mexican country-style music that primarily targets male Hispanic listeners 18-49 years of age; and

*José: Toca lo Que Quiere* ( *plays what he wants* ) features a mix of Spanish-language adult contemporary and Mexican regional hits from the 1970s through the present that targets Hispanic adults ages 25-54.

In addition, in markets where competing stations already offer programming similar to our network formats, or where we otherwise identify an available niche in the marketplace, we run alternative programming that we believe will appeal to local listeners, including the following:

in the Los Angeles market, we offer a Cumbia format a country-style Mexican dance music performed by groups targeting primarily male Hispanic listeners 18-34 years of age;

also in the Los Angeles market, we program an English-language alternative rock format targeting primarily male listeners 25-54 years of age;

in the Dallas-Ft. Worth market, we program an English-language rhythmic contemporary hits format that targets English-dominant Hispanic listeners primarily 18-34 years of age;

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in the McAllen, Texas market, our bilingual Tejano format a musical blend from the northern Mexican border states with influences from Texan country music targets primarily Hispanic listeners 18-34 years of age;

also in the McAllen market, we program two English-language formats, a traditional rock-oriented format that targets primarily males 18-49 years of age and a 1980s and 1990s hit-based adult contemporary format targeting primarily adults 25-54 years of age;

in the Sacramento market, we offer two English-language formats, a hip hop format targeting primarily adults 18-34 years of age and an oldies format targeting primarily listeners 25-54 years of age; and

on two of our AM stations in Phoenix and El Paso we program ESPN Deportes, a Spanish-language sports talk format that is provided to us by a third party pursuant to a network affiliation agreement.

**Table of Contents****Our Radio Station Portfolio**

The following table lists information concerning each of our owned and operated radio stations and its respective market:

Market	Market Rank (by Hispanic Households)	Station	Frequency		Format		
Los Angeles-San Diego-Ventura, California	1	KLYY-FM	97.5	MHz	Cumbia		
		KDLD-FM	103.1	MHz	Alternative Rock (English) (1)		
		KDLE-FM	103.1	MHz			
		KSSC-FM	107.1	MHz			
		Miami-Ft. Lauderdale-Hollywood, Florida	3	KSSD-FM	107.1	MHz	Alternative Rock (English) (1)
				KSSE-FM	107.1	MHz	
		Houston-Galveston, Texas	4				Super Estrella (1)
					Super Estrella (1)		
Dallas-Ft. Worth, Texas	6	KTCY-FM	101.7	MHz	Super Estrella		
		KZMP-FM	104.9	MHz	Radio Tricolor		
		KZZA-FM	106.7	MHz			
Phoenix, Arizona	9				Rhythmic Contemporary Hits (English)		
		KZMP-AM	1540	kHz	Time Brokered (2)		
		KLNZ-FM	103.5	MHz	Radio Tricolor		
		KDVA-FM	106.9	MHz	Super Estrella (1)		
		KVVA-FM	107.1	MHz			
Harlingen-Weslaco-Brownsville-McAllen, Texas	10	KMIA-AM	710	kHz	Super Estrella (1)		
					ESPN (Spanish)		
		KFRQ-FM	94.5	MHz	Classic Rock (English)		
		KKPS-FM	99.5	MHz	Tejano		
		KNVO-FM	101.1	MHz			
Sacramento, California	11	KVLY-FM	107.9	MHz	Latin Adult Contemporary		
					Adult Contemporary (English)		
		KRCX-FM	99.9	MHz	José		
		KCCL-FM	101.9	MHz	Oldies (English)		
		KBMB-FM	103.5	MHz			
		KXSE-FM	104.3	MHz			
		Stockton, California		KMIX-FM	100.9	MHz	Hip Hop (English)
KCVR-AM	1570			kHz			
KTSE-FM	97.1			MHz	Super Estrella		
KCVR-FM	98.9	MHz					
Modesto, California					Radio Tricolor		

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					José (1)
					Super Estrella
Albuquerque-Santa Fe, New Mexico	12	KRZY-FM KRZY-AM	105.9 1450	MHz kHz	José (1) Super Estrella
El Paso, Texas	15	KOFX-FM KINT-FM KYSE-FM KSVE-AM KHRO-AM	92.3 93.9 94.7 1150 1650	MHz MHz MHz kHz kHz	José Oldies (English)  José  Super Estrella  ESPN (Spanish)
Denver-Boulder, Colorado	16	KJMN-FM KXPK-FM KMXA-AM KPVW-FM	92.1 96.5 1090 107.1	MHz MHz kHz MHz	Talk (English) Super Estrella
Aspen, Colorado					Radio Tricolor
					José
Las Vegas, Nevada	22	KRRN-FM KQRT-FM	92.7 105.1	MHz MHz	Radio Tricolor Super Estrella
Tucson, Arizona	25	KZLZ-FM	105.3	MHz	Radio Tricolor
Monterey-Salinas-Santa Cruz, California	33	KLOK-FM KSES-FM KMBX-AM	99.5 107.1 700	MHz MHz kHz	Radio Tricolor  Super Estrella (1)
Yuma, Arizona-El Centro, California	35	KSEH-FM KMXX-FM KWST-AM	94.5 99.3 1430	MHz MHz kHz	José Super Estrella  Radio Tricolor
Palm Springs, California	39	KLOB-FM	94.7	MHz	Country (English) Super Estrella
Lubbock, Texas	44	KAIQ-FM KBZO-AM	95.5 1460	MHz kHz	Super Estrella
Reno, Nevada	54	KRNV-FM	102.1	MHz	Radio Tricolor Radio Tricolor

Market rank source: Nielsen Media Research 2006 estimates.

- (1) Simulcast station.
- (2) Operated pursuant to a time brokerage arrangement under which we grant to third parties the right to program the station.

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### **Radio Advertising**

Substantially all of the revenue from our radio operations is derived from local, national and network advertising.

*Local.* This form of revenue refers to advertising usually purchased by a local client or agency directly from the station's sales force, revenues generated from a third-party through a network inventory agreement and non-traditional revenue. In 2005, local radio revenue accounted for approximately 76% of our total radio revenue.

*National.* This form of revenue refers to advertising purchased by a national client targeting a specific market. Usually this business is placed by a national advertising agency or media buying services and ordered through one of the offices of our national sales representative, Lotus/Entravision Reps LLC. Lotus/Entravision is a joint venture we entered into in August 2001 with Lotus Hispanic Reps Corp. The national accounts are handled locally by the station's general sales manager and/or national sales manager. In 2005, national radio advertising accounted for approximately 24% of our total radio revenue.

### **Radio Marketing/Audience Research**

We believe that radio is an efficient means for advertisers to reach targeted demographic groups. Advertising rates charged by our radio stations are based primarily on the following factors:

the station's ability to attract listeners in a given market;

the demand for available air time;

the attractiveness of the demographic qualities of the listeners (primarily age and purchasing power);

the time of day that the advertising runs;

the program's popularity with listeners; and

the availability of alternative media in the market.

Arbitron provides advertisers with the industry-accepted measure of listening audience classified by demographic segment and time of day that the listeners spend on particular radio stations. Radio advertising rates generally are highest during the morning and afternoon drive-time hours that are the peak times for radio audience listening.

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Historically, advertising rates for Spanish-language radio stations have been lower than those of English-language stations with similar audience levels. We believe that we will continue to be able to increase our rates as new and existing advertisers recognize the growing desirability of targeting the Hispanic population in the United States. We also believe that having multiple stations in a market enables us to provide listeners with alternatives, to secure a higher overall percentage of a market's available advertising dollars and to obtain greater percentages of individual customers' advertising budgets.

Each station broadcasts an optimal number of advertisements each hour, depending upon its format, in order to maximize the station's revenue without jeopardizing its audience listenership. Our non-network stations have up to 14 minutes per hour for commercial inventory and local content. Our network stations have up to one additional minute of commercial inventory per hour. The pricing is based on a rate card and negotiations subject to the supply and demand for the inventory in each particular market and the network.

### **Radio Competition**

Radio broadcasting is a highly competitive business. The financial success of each of our radio stations and markets depends in large part on our audience ratings, our ability to increase our market share of overall radio



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advertising revenue and the economic health of the market. In addition, our advertising revenue depends upon the desire of advertisers to reach our audience demographic. Each of our radio stations competes for audience share and advertising revenue directly with both Spanish-language and English-language radio stations in its market, and with other media, such as newspapers, broadcast and cable television, magazines, billboard advertising, transit advertising, satellite-delivered radio services and direct mail advertising. In addition, in certain markets we operate television stations that indirectly compete for local and national advertising revenue with our radio business. Our primary competitors in our markets in Spanish-language radio are Univision (which merged with Hispanic Broadcasting Corporation in September 2003), Clear Channel Communications Inc. and Spanish Broadcasting System, Inc. Several of the companies with which we compete are large national or regional companies that have significantly greater resources and longer operating histories than we do.

Factors that are material to our competitive position include management experience, a station's rank in its market, signal strength and audience demographics. If a competing station within a market converts to a format similar to that of one of our stations, or if one of our competitors upgrades its stations, we could suffer a reduction in ratings and advertising revenue in that market. The audience ratings and advertising revenue of our individual stations are subject to fluctuation and any adverse change in certain of our key radio markets could have a material adverse effect on our operations.

The radio industry is subject to competition from new media technologies that are being developed or introduced, such as:

audio programming by cable television systems, broadcast satellite-delivered radio services, cellular telephones, Internet content providers and other digital audio broadcast formats and playback mechanisms;

satellite-delivered digital audio services with CD-quality sound with both commercial-free and lower commercial load channels which have expanded their subscriber base and recently have introduced dedicated Spanish-language channels (for example, XM Satellite Radio now provides four Spanish-language channels, all commercial-free, and Sirius Satellite Radio provides three Spanish-language channels); and

In-Band On-Channel digital radio, which could provide multi-channel, multi-format digital radio services in the same bandwidth currently occupied by traditional AM and FM radio services.

While ultimately we believe that none of these new technologies can replace local broadcast radio stations, the challenges from new technologies will continue to require attention from management. In addition, we will continue to review potential opportunities to utilize such new technologies; for example, we are in the process of converting a number of our stations to broadcast digital radio programming as well as analog programming, which we anticipate will allow us to provide additional content to our listeners.

## **Outdoor**

Our outdoor advertising operations complement our television and radio businesses and allow for cross-promotional opportunities with our radio business. Because of its repetitive impact and relatively low cost, outdoor advertising attracts both national and local advertisers. We offer the ability to target specific demographic groups on a cost-effective basis as compared to other advertising media. In addition, we provide businesses with advertising opportunities in locations near their stores or outlets.

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Our outdoor portfolio complements our broadcast operations by providing local advertisers with significant coverage of the Los Angeles, New York and Fresno and Sacramento, California markets. Our outdoor advertising strategy is designed to complement our existing television and radio businesses by allowing us to capitalize on our Hispanic market expertise. The primary components of our strategy are to maximize the strengths of our inventory, continue to focus on ethnic communities and increase market penetration.

**Table of Contents****Outdoor Advertising Markets**

We own and/or operate approximately 10,600 outdoor advertising faces located primarily in high-density urban neighborhoods in Los Angeles and New York, the two largest Hispanic markets in the United States. We also maintain the exclusive rights to market advertising on public buses in the Fresno and Sacramento, California markets. We believe that our outdoor advertising appeals to both large and small businesses.

*Los Angeles.* The greater Los Angeles area has a population of approximately 16.6 million, of which approximately 6.9 million, or 42%, is Hispanic. As such, Los Angeles ranks as the largest Hispanic advertising market in the United States. We believe that we own all of the 8-sheet advertising faces in Los Angeles. Substantially all of our billboard inventory in Los Angeles is located in neighborhoods where Hispanics represent a significant percentage of the local population. We believe that this coverage of the Hispanic population will continue to increase as the Hispanic community continues to grow. The Los Angeles metropolitan area has an extensive network of freeways and surface streets where the average commuter spends approximately 84 minutes per day in the car.

*New York.* The greater New York City area has a population of approximately 19.7 million, of which approximately 3.9 million, or 20%, is Hispanic. As such, New York ranks as the second largest Hispanic advertising market in the United States. We believe that we own substantially all of the 8-sheet and 30-sheet outdoor advertising faces in New York. We also own bulletins and larger outdoor faces in Times Square and along major highways and thoroughfares in New York's boroughs.

**Outdoor Advertising Inventory**

Our inventory consists of the following types of advertising faces that are typically located on sites for which we have leases or permanent easements:

Inventory Type	Los Angeles	New York	Fresno	Sacramento
8-sheet posters	5,398	2,940	194	
30-sheet posters		1,172		
City-Lights	247			
Wall-Scapes		135		
Bulletins	14	161		
Transit Vehicles			107	238
Total	5,659	4,408	301	238

*8-sheet posters* are generally six feet high by 12 feet wide. Due to the smaller size of this type of billboard, 8-sheet posters are often located in densely populated or fast growing areas where larger signs do not fit or are not permitted, such as parking lots and other tight areas. Accordingly, most of our 8-sheet posters are concentrated on city streets, targeting both pedestrian and vehicular traffic and typically are sold to advertisers for periods of four weeks.

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*30-sheet posters* are generally 12 feet high by 25 feet wide and are the most common type of billboard. Lithographed or silk-screened paper sheets, supplied by the advertiser, are pre-pasted and packaged in airtight bags by the outdoor advertising company and applied, like wallpaper, to the face of the display. Like the 8-sheets, our 30-sheet posters are concentrated on city streets, targeting both pedestrian and vehicular traffic and typically are sold to advertisers for periods of four weeks.

*City-Lights* is a product that our predecessor created in 1998 to serve national advertisers with a new advertising format visible during both the day and night. The format is typically used by national fashion, entertainment and consumer products companies desiring to target consumers within proximity of local malls or

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retail outlets. A City-Lights structure is approximately seven feet wide by 10 feet high, set vertically on a single pole structure. The advertisement is usually housed in an illuminated glass casing for greater visibility at night and is sold to advertisers for periods of four weeks.

*Wall-Scapes* generally consist of advertisements ranging in a variety of sizes (from 120 to 800 square feet) that are displayed on the sides of buildings in densely populated locations. Advertising formats can include either vinyl prints or painted artwork. Because of a Wall-Scape's greater impact and higher cost relative to other types of billboards, space is usually sold to advertisers for periods of six to 12 months.

*Bulletins* are generally 14 feet high by 48 feet wide and consist of panels or a single sheet of vinyl that are hand painted at the facilities of the outdoor advertising company or computer painted in accordance with design specifications supplied by the advertiser and mounted to the face of the display. Because of painted bulletins' greater impact and higher cost relative to other types of billboards, they are usually located near major highways and are sold for periods of six to 12 months.

*Transit Advertising* is our newest form of outdoor advertising inventory and consists of advertising panels placed directly on public buses. We market this type of advertising product only in Fresno and Sacramento, California, where we maintain exclusive rights through franchise agreements to sell advertising space on nearly all of Fresno's public buses until December 31, 2007 and nearly all of Sacramento's public buses until March 31, 2008.

## **Outdoor Advertising Revenue**

Advertisers usually contract for outdoor displays through advertising agencies, which are responsible for the artistic design and written content of the advertising. Advertising contracts are negotiated on the basis of monthly rates published in our rate card. These rates are based on a particular display's exposure (or number of impressions delivered) in relation to the demographics of the particular market and its location within that market. The number of impressions delivered by a display (measured by the number of vehicles passing the site during a defined period and weighted to give effect to such factors as its proximity to other displays and the speed and viewing angle of approaching traffic) is determined by surveys that are verified by the Traffic Audit Bureau, an independent agency which is the outdoor advertising industry's equivalent of television's Nielsen ratings and radio's Arbitron ratings.

In each of our markets, we employ salespeople who sell both local and national advertising. Our 2005 outdoor advertising revenue mix consisted of approximately 66% national advertisers and 34% local advertisers. We believe that our local sales force is crucial to maintaining relationships with key advertisers and agencies and identifying new advertisers.

## **Outdoor Advertising Competition**

We compete in each of our outdoor markets with other outdoor advertisers including Viacom, Clear Channel, Regency Outdoor Advertising and Van Wagner Communications. Many of these competitors have a larger national network and greater total resources than we have. In addition, we also compete with a wide variety of out-of-home media, including advertising in shopping centers, airports, stadiums, movie theaters and supermarkets, as well as on taxis, trains and buses. In competing with other media, outdoor advertising relies on its relative cost efficiency and its ability to reach a segment of the population with a particular set of demographic characteristics within that market.

**Seasonality**

Seasonal net broadcast revenue fluctuations are common in the television and radio broadcasting industry and the outdoor advertising industry and are due primarily to fluctuations in advertising expenditures by local and national advertisers. Our first fiscal quarter generally produces the lowest net revenue for the year.

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### **Material Trademarks, Trade Names and Service Marks**

In the course of our business, we use various trademarks, trade names and service marks, including our logos and FCC call letters, in our advertising and promotions. We believe that the strength of our trademarks, trade names and service marks are important to our business and we intend to protect and promote them as appropriate. We do not hold or depend upon any material patent, government license, franchise or concession, except our broadcast licenses granted by the FCC. In addition, the majority of our outdoor advertising structures are subject to various state and local permitting requirements.

### **Employees**

As of December 31, 2005, we had approximately 1,148 full-time employees, including 718 full-time employees in television, 357 full-time employees in radio and 73 full-time employees in outdoor advertising. As of December 31, 2005, five of our full-time television employees and seven of our full-time outdoor employees were represented by labor unions that have entered into collective bargaining agreements with us. We believe that our relations with these unions and with our employees generally are good.

### **Regulation of Television and Radio Broadcasting**

*General.* The FCC regulates television and radio broadcast stations pursuant to the Communications Act of 1934. Among other things, the FCC:

determines the particular frequencies, locations and operating power of stations;

issues, renews, revokes and modifies station licenses;

regulates equipment used by stations; and

adopts and implements regulations and policies that directly or indirectly affect the ownership, changes in ownership, control, operation and employment practices of 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 renewal with conditions or, in the case of particularly egregious violations, the denial of a license renewal application, the revocation of an FCC license or the denial of FCC consent to acquire additional broadcast properties.

Congress and the FCC have had under consideration or reconsideration, and may in the future consider and adopt, new laws, regulations and policies regarding a wide variety of matters that could, directly or indirectly, affect the operation, ownership and profitability of our television and radio stations, result in the loss of audience share and advertising revenue for our television and radio broadcast stations or affect our ability to acquire additional television and radio broadcast stations or finance such acquisitions. Such matters may include:

changes to the license authorization process;

proposals to impose spectrum use or other fees on FCC licensees;

proposals to change rules relating to political broadcasting including proposals to grant free airtime to candidates;

proposals to restrict or prohibit the advertising of beer, wine and other alcoholic beverages;

proposals dealing with the broadcast of profane, indecent or obscene language and the consequences to a broadcaster for permitting such speech;

technical and frequency allocation matters;

the implementation of digital television and radio broadcasting rules on both satellite and terrestrial bases;

the implementation of rules governing the carriage of local analog and/or digital television signals by direct broadcast satellite services and cable television systems;



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changes in broadcast multiple ownership, foreign ownership, cross-ownership and ownership attribution rules; and

proposals to alter provisions of the tax laws affecting broadcast operations and acquisitions.

We cannot predict what changes, if any, might be adopted, nor can we predict what other matters might be considered in the future, nor can we judge in advance what impact, if any, the implementation of any particular proposal or change might have on our business.

*FCC Licenses.* Television and radio stations operate pursuant to licenses that are granted by the FCC for a term of eight years, subject to renewal upon application to the FCC. During the periods when renewal applications are pending, petitions to deny license renewal applications may be filed by interested parties, including members of the public. The FCC may hold hearings on renewal applications if it is unable to determine that renewal of a license would serve the public interest, convenience and necessity, or if a petition to deny raises a substantial and material question of fact as to whether the grant of the renewal applications would be inconsistent with the public interest, convenience and necessity. However, the FCC is prohibited from considering competing applications for a renewal applicant's frequency, and is required to grant the renewal application if it finds:

that the station has served the public interest, convenience and necessity;

that there have been no serious violations by the licensee of the Communications Act or the rules and regulations of the FCC; and

that there have been no other violations by the licensee of the Communications Act or the rules and regulations of the FCC that, when taken together, would constitute a pattern of abuse.

If as a result of an evidentiary hearing the FCC determines that the licensee has failed to meet the requirements for renewal and that no mitigating factors justify the imposition of a lesser sanction, the FCC may deny a license renewal application. Historically, FCC licenses have generally been renewed. We have no reason to believe that our licenses will not be renewed in the ordinary course, although there can be no assurance to that effect. The non-renewal of one or more of our stations' licenses could have a material adverse effect on our business.

*Ownership Matters.* The Communications Act requires prior consent of 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 television or radio broadcast license or a transfer of control of a broadcast licensee, the FCC considers a number of factors pertaining to the licensee including compliance with various rules limiting common ownership of media properties, the character of the licensee and those persons holding attributable interests therein, and the Communications Act's limitations on foreign ownership and compliance with the FCC rules and regulations.

To obtain the FCC's prior consent to assign or transfer a broadcast license, appropriate applications must be filed with the FCC. If the application to assign or transfer the license involves a substantial change in ownership or control of the licensee, for example, the transfer or acquisition of more than 50% of the voting equity, 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. If an assignment application does not involve new parties, or if a transfer of control application does not involve a substantial change in ownership or control, it is a pro forma application, which is not subject to the public notice and 30-day petition to deny procedure. The regular and pro forma applications are nevertheless subject to informal objections that may be filed any time until the FCC acts on 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.



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Under the Communications Act, a broadcast license may not be granted to or held by persons who are not U.S. citizens, by any corporation that has more than 20% of its capital stock 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. 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 its capital stock is owned of record or voted by non-U.S. citizens or entities or their representatives, or foreign governments or their representatives or by non-U.S. corporations. Thus, the licenses for our stations could be revoked if our outstanding capital stock is issued to or for the benefit of non-U.S. citizens in excess of these limitations. Our first restated certificate of incorporation restricts the ownership and voting of our capital stock to comply with these requirements.

The FCC generally applies its other broadcast ownership limits to attributable interests held by an individual, corporation or other association or entity. 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 positions as an officer or director of a corporate parent of a broadcast licensee.

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.

A time brokerage agreement with another television or radio station in the same market creates an attributable interest in the brokered television or radio station as well for purposes of the FCC's local television or radio station ownership rules, if the agreement affects more than 15% of the brokered television or radio station's weekly broadcast hours. Likewise, a joint sales agreement involving radio stations creates a similar attributable interest for the broadcast station that is undertaking the sales function.

Debt instruments, non-voting stock, options and warrants for voting stock 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. The FCC is considering applying this policy to television stations as well.

However, the FCC also applies a rule, known as the equity-debt-plus rule, which causes certain creditors or investors to be attributable owners of a station, regardless of whether there is a single majority stockholder or other applicable exception to the FCC's attribution rules. Under this rule, a major programming supplier (any programming supplier that provides more than 15% of the station's weekly programming hours) or a same-market media entity will be an attributable owner of a station if the supplier or same-market media entity 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 equity-debt-plus rule, equity includes all stock, whether voting or nonvoting, and equity held by insulated limited partners in limited partnerships. Debt includes all liabilities, whether long-term or short-term.

Under the ownership rules currently in place, the FCC generally permits an owner to have only one television station per market. A single owner is permitted to have two stations with overlapping signals so long as they are assigned to different markets. The FCC's rules regarding ownership permit, however, an owner to operate two television stations assigned to the same market so long as either:

the television stations do not have overlapping broadcast signals; or

there will remain after the transaction eight independently owned, full power noncommercial or commercial operating television stations in the market and one of the two commonly-owned stations is not ranked in the top four based upon audience share.

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The FCC will consider waiving these ownership restrictions in certain cases involving failing or failed stations or stations which are not yet built.

The FCC permits a television station owner to own one radio station in the same market as its television station. In addition, a television station owner is permitted to own additional radio stations, not to exceed the local radio ownership limits for the market, as follows:

in markets where 20 media voices will remain, a television station owner may own an additional five radio stations, or, if the owner only has one television station, an additional six radio stations; and

in markets where ten media voices will remain, a television station owner may own an additional three radio stations.

A media voice includes each independently-owned and operated full-power television and radio station and each daily newspaper that has a circulation exceeding 5% of the households in the market, plus one voice for all cable television systems operating in the market.

The FCC rules impose a limit on the number of television stations a single individual or entity may own nationwide.

The number of radio stations an entity or individual may own in a radio market is as follows:

In a radio market with 45 or more commercial 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).

In a radio market with between 30 and 44 (inclusive) commercial radio stations, a party may own, operate or control up to seven commercial radio stations, not more than four of which are in the same service (AM or FM).

In a radio market with between 15 and 29 (inclusive) commercial radio stations, a party may own, operate or control up to six commercial radio stations, not more than four of which are in the same service (AM or FM).

In a radio market with 14 or fewer commercial radio stations, a party may own, operate or control up to five commercial radio stations, not more than three of which are in the same service (AM or FM), except that a party may not own, operate, or control more than 50% of the radio stations in such market.

Because of these multiple and cross-ownership rules, if a stockholder, officer or director of Entravision holds an attributable interest in Entravision, such stockholder, officer or director may violate the FCC's rules if such person or entity also holds or acquires an attributable interest in other television or radio stations or daily newspapers, depending on their number and location. If an attributable stockholder, officer or director of Entravision violates any of these ownership rules, we may be unable to obtain from the FCC one or more authorizations needed to conduct our broadcast business and may be unable to obtain FCC consents for certain future acquisitions.

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On June 2, 2003, the FCC concluded a nearly two-year review of its media ownership rules. The FCC revised its national ownership policy, modified television and cross-ownership restrictions in a given market, and changed its methodology for defining radio markets. A number of parties appealed the FCC's June 2, 2003 decision. The United States Court of Appeals for the Third Circuit, in a decision reached on June 24, 2004, upheld certain of the Commission's actions while remanding others for further review by the FCC. In taking that action, the Court stayed the effectiveness of all of the FCC's actions but, in a subsequent decision, the Court permitted the FCC to implement the local radio multiple ownership rule changes that the Court had upheld. Certain of the petitioners in the case, but not the FCC or the U.S. Department of Justice, requested that the Supreme Court review the action of the Court which was denied. It is expected that the FCC in 2006, will commence a proceeding to respond to the remand. Accordingly, the ultimate impact of changes in the FCC's restrictions on how many stations a party may own, operate and/or control and on our future acquisitions and competition from other companies is difficult to predict at this time.

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The rules that have gone into effect amend the FCC's methodology for defining a radio market for the purpose of ownership caps. The FCC replaced its signal contour method of defining local radio markets in favor of a geographic market assigned by Arbitron, the private audience measurement service for radio broadcasters. For non-Arbitron markets, the FCC is conducting a rulemaking in order to define markets in a manner comparable to Arbitron's method. In the interim, the FCC will apply a modified contour approach, to non-Arbitron markets. This modified approach will exclude any radio station whose transmitter site is more than 58 miles from the perimeter of the mutual overlap area.

With regard to television service, the FCC's proposed rules, which remain stayed, state:

In markets with five or more television stations, a licensee may own two stations, but only one of these stations may be among the top four in ratings.

In markets with eighteen or more television stations, a licensee may own up to three television stations, but only one of these may be among the top four in ratings.

Both commercial and non-commercial stations are counted in determining the number of stations in a market.

For markets with eleven or fewer television stations, a waiver may be sought for the merger of two top-four stations. The FCC's decision to grant a waiver will be based on whether local communities will be better served by the merger.

With regard to the national television ownership limit, the FCC increased the national television ownership limit to 45% from 35%. Congress subsequently enacted legislation that reduced the nationwide cap to 39%. Accordingly, a company can now own television stations collectively reaching up to a 39% share of U.S. television households. Limits on ownership of multiple local television stations still apply, even if the 39% limit is not reached on a national level.

In establishing a national cap by statute, Congress did not make mention of the FCC's UHF discount policy, whereby UHF stations are deemed to serve only one-half of the population in their television markets. The FCC has commenced a proceeding to determine if Congress intended to alter this UHF discount policy. As the licensee of UHF television stations, the elimination or modification of the UHF discount policy could have an impact on the ability of Entravision to acquire television stations in additional markets.

With regard to cross-ownership caps, radio-television cross-ownership rules would have been significantly relaxed if the June 2003 rules were permitted to go into effect. Under that decision, no cross-ownership is permitted in markets with three or fewer television stations. A waiver may be available if it can be shown that the television station does not serve the area served by the cross-owned radio station. In markets with between four and eight television stations, combinations are limited to one of the following:

a daily newspaper, one television station and up to half of the radio station limit for that market;

a daily newspaper and up to the entire radio station limit for that market; and

two television stations (subject to the local television ownership rule) and up to the entire radio station limit for that market.

For markets with nine or more television stations, the radio-television cross-ownership ban would be completely rescinded.

The future of the FCC's new rules is made uncertain not only by the Third Circuit's decision but also by the response of Congress to the FCC's relaxation of existing ownership limits. As discussed above, Congress has already modified the nationwide television ownership cap and has considered legislation that would roll back the FCC's proposed changes. Any actions by the FCC in the future regarding radio and/or television ownership may elicit further Congressional response.



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The Communications Act requires broadcasters to serve the public interest. The FCC has relaxed or eliminated many of the more formalized procedures it developed to promote the broadcast of certain types of programming responsive to the needs of a broadcast station's community of license. Nevertheless, a broadcast licensee continues to be required to present programming in response to community problems, needs and interests and to maintain certain records demonstrating its responsiveness. The FCC will consider complaints from the public about a broadcast station's programming when it evaluates the licensee's renewal application, but complaints also may be filed and considered at any time. Stations also must follow various FCC rules that regulate, among other things, political broadcasting, the broadcast of profane, obscene or indecent programming, sponsorship identification, the broadcast of contests and lotteries and technical operations.

The FCC requires that licensees must not discriminate in hiring practices. It has recently released new rules that will require us to adhere to certain outreach practices when hiring personnel for our stations and to keep records of our compliance with these requirements. On March 10, 2003, the FCC's new Equal Employment Opportunity rules went into effect. The rules set forth a three-pronged recruitment and outreach program for companies with five or more full-time employees that requires the wide dissemination of information regarding full-time vacancies, notification to requesting recruitment organizations of such vacancies, and a number of non-vacancy related outreach efforts such as job fairs and internships. Stations are required to collect various information concerning vacancies, such as the number filled, recruitment sources used to fill each vacancy, and the number of persons interviewed for each vacancy. While stations are not required to routinely submit information to the FCC, stations must place an EEO report containing vacancy-related information and a description of outreach efforts in their public file annually. Stations must submit the annual EEO public file report as part of their renewal applications, and television stations with five or more full-time employees and radio stations with more than ten employees also must submit the report midway through their license term for FCC review. Stations also must place their EEO public file report on their Internet websites, if they have one. Beyond our compliance efforts, the new EEO rules should not materially affect our operations. Failure to comply with the FCC's EEO rules could result in sanctions or the revocation of station licenses.

The FCC rules also prohibit a broadcast licensee from simulcasting more than 25% of its programming on another radio station in the same broadcast service (that is, AM/AM or FM/FM). The simulcasting restriction applies if the licensee owns both radio broadcast stations or owns one and programs the other through a local marketing agreement, provided that the contours of the radio stations overlap in a certain manner.

*Must Carry Rules.* FCC regulations implementing the Cable Television Consumer Protection and Competition Act of 1992 require each full-service television broadcaster to elect, at three-year intervals beginning October 1, 1993, to either:

require carriage of its signal by cable systems in the station's market, which is referred to as "must carry" rules; or

negotiate the terms on which such broadcast station would permit transmission of its signal by the cable systems within its market which is referred to as "retransmission consent."

For the most part, we have elected "must carry" with respect to each of our full-power stations for the most-recent three-year period that commenced January 1, 2006.

Under the FCC's rules currently in effect, cable systems are only required to carry one signal from each local broadcast television station. As our stations begin broadcasting digital signals, the cable systems that carry our stations' analog signals will not be required to carry such digital signal until we discontinue our analog broadcasting. The FCC has considered rules to govern the obligations of cable systems to carry local stations' signals during and following the transition from analog to digital television broadcasting. It has decided that there will be no "dual carriage" requirement obligating cable systems to carry a broadcaster's paired analog and digital channels. It has also decided that cable systems will be required to carry only one channel of digital signal from each of our stations, despite the fact that operating in the digital mode we will be able to broadcast multiple digital services. While adoption of a multicast must-carry requirement might have enabled us to take advantage



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of this new technology with the guarantee that our multiple programming efforts would be entitled to cable carriage, such a requirement might also have subjected us to increased competition from other stations seeking to add programming that competes with our programming as one or more of their additional program streams. It also could have subjected the must carry regime to further judicial review that could have resulted in the elimination of must carry treatment which could have had detrimental consequences for us.

*Time Brokerage and Joint Sales Agreements.* We have, from time to time, entered into time brokerage and joint sales agreements, generally in connection with pending station acquisitions, under which we are given the right to broker time on stations owned by third parties, or agree that other parties may broker time on our stations, or we or other parties sell broadcast time on a station, as the case may be. By using these agreements, we can provide programming and other services to a station proposed to be acquired before we receive all applicable FCC and other governmental approvals, or receive such programming and other services where a third party is better able to undertake programming and/or sales efforts.

FCC rules and policies generally permit time brokerage agreements if the station licensee retains ultimate responsibility for and control of the applicable station. We cannot be sure that we will be able to air all of our scheduled programming on a station with which we have time brokerage agreements or that we will receive the anticipated revenue from the sale of advertising for such programming.

Under the typical joint sales agreement, a station licensee obtains, for a fee, the right to sell substantially all of the commercial advertising on a separately owned and licensed station in the same market. It also involves the provision by the selling party of certain sales, accounting and services to the station whose advertising is being sold. Unlike a time brokerage agreement, the typical joint sales agreement does not involve operating the station's program format.

As part of its increased scrutiny of television and radio station acquisitions, the Department of Justice has stated publicly that it believes that time brokerage agreements and joint sales agreements could violate the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, if such agreements take effect prior to the expiration of the waiting period under such Act. Furthermore, the Department of Justice has noted that joint sales agreements may raise antitrust concerns under Section 1 of the Sherman Antitrust Act and has challenged them in certain locations. The Department of Justice also has stated publicly that it has established certain revenue and audience share concentration benchmarks with respect to television and radio station acquisitions, above which a transaction may receive additional antitrust scrutiny. See *Risk Factors* below.

*Digital Television Services.* The FCC has adopted rules for implementing digital television service in the United States. Implementation of digital television will improve the technical quality of television signals and provide broadcasters the flexibility to offer new services, including high-definition television and broadband data transmission.

The FCC has established service rules and adopted a table of allotments for digital television. Under the table, certain eligible broadcasters with a full-service television station have been allocated a separate channel for digital television operation. Stations were permitted to phase in their digital television operations over a period of years and must, by July 1, 2006, operate their digital television stations pursuant to their FCC authorizations. On February 1, 2006, the Congress passed legislation requiring that analog broadcast of full-service television stations cease on February 17, 2009. We expect this deadline to become effective. For a discussion of our stations' compliance with the digital television broadcasting requirements, please see *Risk Factors*, below.

Equipment and other costs associated with the transition to digital television, including the necessity of temporary dual-mode operations and the relocation of stations from one channel to another, have imposed some near-term financial costs on our television stations providing the services. The potential also exists for new sources of revenue to be derived from use of the digital spectrum. We cannot predict the overall effect the

transition to digital television might have on our business.

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*Digital Radio Services.* The FCC has adopted standards for authorizing and implementing terrestrial digital audio broadcasting technology, known as In-Band On-Channel or HD Radio, for radio stations. Digital audio broadcasting's advantages over traditional analog broadcasting technology include improved sound quality and the ability to offer a greater variety of auxiliary services. This technology permits FM and, at present, daytime AM stations to transmit radio programming in both analog and digital formats, or in digital only formats, using the bandwidth that the radio station is currently licensed to use. We have elected to rollout this technology on a gradual basis owing to the absence of receivers equipped to receive such signals and are considering its merits as well as its costs. It is unclear what effect such technology will have on our business or the operations of our radio stations.

*Radio Frequency Radiation.* The FCC has adopted rules limiting human exposure to levels of radio frequency radiation. These rules require applicants for renewal of broadcast licenses or modification of existing licenses to inform the FCC whether the applicant's broadcast facility would expose people to excessive radio frequency radiation. We currently believe that all of our stations are in compliance with the FCC's current rules regarding radio frequency radiation exposure.

*Satellite Digital Audio Radio Service.* The FCC has allocated spectrum to a new technology, satellite digital audio radio service, to deliver satellite-based audio programming to a national or regional audience. The FCC has licensed two entities, XM Radio, Inc. and Sirius Satellite Radio Inc., to provide this service. The nationwide reach of the satellite digital audio radio service allows niche programming aimed at diverse communities that we are targeting. This technology competes for audience share, but generally not for local advertising revenue, with conventional terrestrial radio broadcasting. These competitors have both commenced operations and are offering their services nationwide.

*Low-Power Radio Broadcast Service.* The FCC has created a low-power FM radio service and has granted a limited number of construction permits for such stations. The low-power FM service consists of two classes of radio stations, with maximum power levels of either 10 watts or 100 watts. The 10-watt stations will reach an area with a radius of between one and two miles, and the 100-watt stations reach an area with a radius of approximately three and one-half miles. The low-power FM stations are required to protect other existing FM stations, as currently required of full-powered FM stations.

The low-power FM service is exclusively non-commercial. It is difficult to predict what impact, if any, the low-power FM service will have on technical interference with our stations' signals or competition for our stations' audiences. Due to current technical restrictions and the non-commercial ownership requirement for low-power FM stations, we expect that low-power FM service will cause little or no signal interference with our stations.

*Other Proceedings.* The Satellite Home Viewer Improvement Act of 1999, or SHVIA, allows satellite carriers to deliver broadcast programming to subscribers who are unable to obtain television network programming over the air from local television stations. Congress in 1999 enacted legislation to amend the SHVIA to facilitate the ability of satellite carriers to provide subscribers with programming from local television stations. Any satellite company that has chosen to provide local-into-local service must provide subscribers with all of the local broadcast television signals that are assigned to the market and where television licensees ask to be carried on the satellite system. We have taken advantage of this law to secure carriage of our full-service stations in those markets where the satellite operators have implemented local-into-local service, although one of the satellite carriers, EchoStar/Dish Network, attempted to require its customers to install a second dish in order to receive our stations' signals. The FCC has told this satellite carrier that it cannot utilize this second dish method of delivering our local broadcast signal to its customers, but an appeal is pending. The SHVIA expired in 2004 and Congress adopted the Satellite Home Viewer Extension and Reauthorization Act of 2004 (SHVERA). SHVERA extended the ability of satellite operators to implement local-into-local service and, among its other provisions, required that the use of second dishes by satellite operators be ended on or before June 8, 2006. Please see Risk Factors, below.

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### **Regulation of Outdoor Advertising**

Outdoor advertising is subject to extensive governmental regulation at the federal, state and local levels. Federal law, principally the Highway Beautification Act of 1965, regulates outdoor advertising on federally aided primary and interstate highways. As a condition to federal highway assistance, the Highway Beautification Act requires states to restrict billboards on such highways to commercial and industrial areas and imposes certain additional size, spacing and other limitations. All states have passed state billboard control statutes and regulations at least as restrictive as the federal requirements, including removal of any illegal signs on such highways at the owner's expense and without compensation. We believe that the number of our billboards that may be subject to removal as illegal would have a limited impact on operations. No state in which we operate has banned billboards, but some have adopted standards more restrictive than the federal requirements.

Municipal and county governments generally also have sign controls as part of their zoning laws. Some local governments prohibit construction of new billboards and some allow new construction only to replace existing structures, although most allow construction of billboards subject to restrictions on zones, size, spacing and height. The cities of Los Angeles and New York, our two major outdoor advertising markets, have each implemented or initiated billboard controls imposing taxes, fees and/or registration requirements in an effort to decrease or restrict the type or number of outdoor signs.

In Los Angeles, a moratorium on the construction of new billboards remains in place. In 2002, the city enacted an ordinance requiring the payment of an annual fee in connection with a new billboard inspection program, and we joined with other outdoor advertising companies in litigation challenging the validity of that ordinance and the amount of the fee. In December 2004, we entered into a settlement agreement with the City of Los Angeles pursuant to which we agreed to remove 500 8-sheet faces and pay a periodic inspection fee in exchange for the ability to maintain certain other 8-sheet faces that do not conform with their existing permits in one or more ways, as well as the ability to upgrade additional 8-sheets into City-Lights. We believe that neither the loss of the 8-sheets that we will remove nor the fee that we have agreed to pay under this settlement will have a material adverse effect on our business. The settlement was challenged by other outdoor advertising companies operating in the Los Angeles market, but in August 2005 the challenges were dropped. We are currently working with the City of Los Angeles to implement the agreement.

In New York, billboards are regulated primarily by provisions of the New York City Zoning Resolution and a local municipal law titled Local Law 31. The New York City Department of Buildings has proposed a new rule, Rule 49, to implement Local Law 31 and further regulate outdoor advertising within the city. Public hearings were held in September 2005, at which time extensive proposed changes to Rule 49 were submitted by the industry to the Department of Buildings. Rule 49 is currently under consideration by the Department of Buildings, and at this time we cannot predict what changes, if any, will ultimately be made to the rule, nor can we estimate with certainty the impact that Rule 49, if implemented, will have on our New York inventory, but such regulation could have a negative impact on our New York inventory.

Federal law does not require the removal of existing lawful billboards, but does require payment of compensation if a state or political subdivision compels the removal of a lawful billboard along a federally aided primary or interstate highway. State governments have purchased and removed legal billboards for beautification in the past, using federal funding for transportation enhancement programs, and may do so in the future. Governmental authorities from time to time use the power of eminent domain to remove billboards. Thus far, we have been able to obtain satisfactory compensation for any of our billboards purchased or removed as a result of governmental action, although there is no assurance that this will continue to be the case in the future. Local governments do not generally purchase billboards for beautification, but some have attempted to force the removal of legal but nonconforming billboards (billboards which conformed with applicable zoning regulations when built but which do not conform to current zoning regulations) after a period of years under a concept called "amortization," by which the governmental body asserts that just compensation is earned by continued operation over time. Although there is some question as to the legality of amortization under federal and many state laws, amortization has been upheld in some instances. We generally have been successful in negotiating settlements.



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with municipalities for billboards required to be removed. Restrictive regulations also limit our ability to rebuild or replace nonconforming billboards. In addition, we are unable to predict what additional regulations may be imposed on outdoor advertising in the future. The outdoor advertising industry is heavily regulated and at various times and in various markets can be expected to be subject to varying degrees of regulatory pressure affecting the operation of advertising displays. The outdoor industry also is protected to varying degrees by state and federal legal, including constitutional, protections on expression.

State and local governments from time to time also regulate the outdoor advertising of alcohol products. Alcohol-related advertising represented approximately 11% of the total revenue of our outdoor advertising business in 2005. As a matter of both company policy and industry practice (on a voluntary basis), we do not post any alcohol advertisements within a 500 square foot radius of any school, church or hospital. Any significant reduction in alcohol-related advertising due to content-related restrictions could cause a reduction in our direct revenue from such advertisements and a simultaneous increase in the available space on the existing inventory of billboards in the outdoor advertising industry.

### **ITEM 1A. RISK FACTORS**

*We have a history of losses that, if continued, could adversely affect the market price of our securities and our ability to raise capital.*

Although we had a net profit for the years ended December 31, 2004 and 2003, we had a net loss of approximately \$9.7 million for the year ended December 31, 2005. In addition, we had net losses applicable to common stockholders of \$9.7 million, \$9.7 million and \$9.1 million for the years ended December 31, 2005, 2004 and 2003, respectively. If we cannot generate profits in the future, our failure to do so could adversely affect the market price of our securities, which in turn could adversely affect our ability to raise additional equity capital or to incur additional debt.

*If we cannot raise required capital, we may have to curtail existing operations and our future growth through acquisitions.*

We may require significant additional capital for future acquisitions and general working capital and debt service needs. If our cash flow and existing working capital are not sufficient to fund future acquisitions and our general working capital and debt service requirements, we will have to raise additional funds by selling equity, refinancing some or all of our existing debt or selling assets or subsidiaries. None of these alternatives for raising additional funds may be available on acceptable terms to us or in amounts sufficient for us to meet our requirements. In addition, our ability to raise additional funds is limited by the terms of the credit agreement governing our syndicated bank credit facility. Our failure to obtain any required new financing may, if needed, prevent future acquisitions.

*Our substantial level of debt could limit our ability to grow and compete.*

As of December 31, 2005, we had \$500 million of debt outstanding under our syndicated bank credit facility. A significant portion of our cash flow from operations will be dedicated to servicing our debt obligations, and our ability to obtain additional financing may be limited. We may not have sufficient future cash flow to meet our debt payments, or we may not be able to refinance any of our debt at maturity. We have pledged substantially all of our assets to our lenders as collateral. Our lenders could proceed against the collateral to repay outstanding indebtedness if we are unable to meet our debt service obligations. If the amounts outstanding under our syndicated bank credit facility are accelerated, our assets may not be sufficient to repay in full the money owed to such lenders.



Our substantial indebtedness could have important consequences to our business, such as:

limiting our ability to borrow additional amounts for working capital, capital expenditures, acquisitions, debt service requirements, execution of our growth strategy or other purposes; and

placing us at a disadvantage compared to those of our competitors who have less debt.

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*The credit agreement governing our syndicated bank credit facility contains various covenants that limit management's discretion in the operation of our business and could limit our ability to grow and compete.*

The credit agreement governing our syndicated bank credit facility contain various provisions that limit our ability to:

incur additional debt and issue preferred stock;

pay dividends and make other distributions;

make investments, capital expenditures and other restricted payments;

create liens;

sell assets; and

enter into certain transactions with affiliates.

These provisions restrict management's ability to operate our business in accordance with management's discretion and could limit our ability to grow and compete.

If we fail to comply with any of our financial covenants or ratios under our financing agreements, our lenders could:

elect to declare all amounts borrowed to be immediately due and payable, together with accrued and unpaid interest; and/or

terminate their commitments, if any, to make further extensions of credit.

*Any failure to maintain our FCC broadcast licenses could cause a default under our syndicated bank credit facility and cause an acceleration of our indebtedness.*

Our syndicated bank credit facility requires us to maintain our FCC licenses. If the FCC were to revoke any of our material licenses, our lenders could declare all amounts outstanding under the syndicated bank credit facility to be immediately due and payable. If our indebtedness is accelerated, we may not have sufficient funds to pay the amounts owed.

*Cancellations or reductions of advertising could adversely affect our results of operations.*

We do not obtain long-term commitments from our advertisers, and advertisers may cancel, reduce or postpone orders without penalty. Cancellations, reductions or delays in purchases of advertising could adversely affect our revenue, especially if we are unable to replace such purchases. Our expense levels are based, in part, on expected future revenue and are relatively fixed once set. Therefore, unforeseen fluctuations in advertising sales could adversely impact our operating results.

*We have a significant amount of goodwill and other intangible assets and we may never realize the full value of our intangible assets.*

Goodwill and intangible assets totaled \$1.3 billion at December 31, 2005, primarily attributable to acquisitions in recent years. At the date of these acquisitions, the fair value of the acquired goodwill and intangible assets equaled its book value. At least annually, we test our goodwill and intangible assets for impairment. Impairment may result from, among other things, deterioration in our performance, adverse market conditions, adverse changes in applicable laws and regulations, including changes that restrict the activities of or affect the products or services sold by our businesses and a variety of other factors. The amount of any quantified impairment must be expensed as a charge to operations. Depending on future circumstances, we may never realize the full value of our intangible assets. Any future determination of impairment of a significant portion of our goodwill and other intangibles could have an adverse effect on our financial condition and results of operations.

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***Univision's ownership of our Class U common stock may make some transactions difficult or impossible to complete without Univision's support.***

Univision is the holder of all of our issued and outstanding Class U common stock. Although the Class U common stock has limited voting rights and does not include the right to elect directors, Univision does have the right to approve any merger, consolidation or other business combination involving our company, any dissolution of our company and any assignment of the FCC licenses for any of our Univision-affiliated television stations. Univision's ownership interest may have the effect of delaying, deterring or preventing a change in control of our company and may make some transactions more difficult or impossible to complete without Univision's support.

***Univision's future divestiture of a portion of its equity interest in our company could adversely affect the market price of our securities.***

Univision currently owns less than 15% of our common stock on a fully-converted basis. In connection with Univision's merger with Hispanic Broadcasting Corporation in September 2003, Univision entered into an agreement with DOJ pursuant to which Univision agreed, among other things, to ensure that its percentage ownership of our company will not exceed 10% by March 26, 2009. Univision's required divestiture of a significant portion of its remaining equity interest in our company over the next several years, whether in a single transaction or a series of transactions, could depress the market value of our Class A common stock.

***Our television ratings and revenue could decline significantly if our affiliation relationship with Univision or Univision's programming success changes in an adverse manner.***

If our affiliation relationship with Univision changes in an adverse manner, or if Univision's programming success diminishes, our ability to generate television advertising revenue on which our television business depends could be negatively affected. Univision's ratings might decline or Univision might not continue to provide programming, marketing, available advertising time and other support to its affiliates on the same basis as currently provided. Additionally, by aligning ourselves closely with Univision, we might forego other opportunities that could diversify our television programming and avoid dependence on Univision's television networks. Univision's relationships with Televisa and Venevision are important to Univision's, and consequently our, continued success. Univision and Televisa are currently involved in litigation over programming provided to Univision by Televisa, and we cannot predict the outcome of their litigation or the effect that the outcome might have on our business or our results of operations. In addition, in February 2006, Univision announced that it is exploring strategic alternatives including but not limited to the sale of Univision to, or its merger with, another entity, and we cannot predict the effect that any such sale or merger would have on our business or our results of operations.

***Because three of our directors and officers, and stockholders affiliated with them, hold the majority of our voting power, they can ensure the outcome of most matters on which our stockholders vote.***

As of December 31, 2005, Walter F. Ulloa, Philip C. Wilkinson and Paul Zevnik together hold approximately 82% of the combined voting power of our outstanding shares of common stock. Each of Messrs. Ulloa, Wilkinson and Zevnik is a member of our board of directors, and Messrs. Ulloa and Wilkinson also serve as executive officers of our company. In addition to their shares of our Class A common stock, collectively they own all of the issued and outstanding shares of our Class B common stock, which have ten votes per share on any matter subject to a vote of the stockholders. Accordingly, Messrs. Ulloa, Wilkinson and Zevnik have the ability to elect each of the members of our board of directors. Messrs. Ulloa, Wilkinson and Zevnik have agreed contractually to vote their shares to elect themselves as directors of our company. Messrs. Ulloa, Wilkinson and Zevnik, acting in concert, also have the ability to control the outcome of most matters requiring stockholder approval. This control may discourage certain types of transactions involving an actual or potential change of control of our

company, such as a merger or sale of the company.

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*Stockholders who desire to change control of our company may be prevented from doing so by provisions of our second amended and restated certificate of incorporation and the credit agreement governing our syndicated bank credit facility. In addition, other agreements contain provisions that could discourage a takeover.*

Our second amended and restated certificate of incorporation could make it more difficult for a third party to acquire us, even if doing so would benefit our stockholders. The provisions of our certificate of incorporation could diminish the opportunities for a stockholder to participate in tender offers. In addition, under our certificate of incorporation, our board of directors may issue preferred stock on terms that could have the effect of delaying or preventing a change in control of our company. The issuance of preferred stock could also negatively affect the voting power of holders of our common stock. The provisions of our certificate of incorporation may have the effect of discouraging or preventing an acquisition or sale of our business.

In addition, the credit agreement governing our syndicated bank credit facility contains limitations on our ability to enter into a change of control transaction. Under this agreement, the occurrence of a change of control, in some cases after notice and grace periods, would constitute an event of default permitting acceleration of our outstanding indebtedness.

*Displacement of any of our low-power television stations could cause our ratings and revenue for any such station to decrease.*

A significant portion of our television stations is licensed by the FCC for low-power service only. Our low-power television stations operate with less power and coverage than our full-power stations. The FCC rules under which we operate provide that low-power television stations are treated as a secondary service. If any or all of our low-power stations are found to cause interference to full-power stations, we would be required to eliminate the interference or terminate service. As a result of the FCC's initiation of digital television service and actions by Congress to reclaim broadcast spectrum, channels 52-69, previously used for broadcasting, will be cleared and put up for auction generally to wireless services or assignment to public safety services. In a few urban markets where we operate, including Washington, D.C. and San Diego, there are a limited number of alternative channels to which our low-power television stations could migrate as they are displaced by full-power digital broadcasters and non-broadcast services. If we are unable to move the signals of our low-power television stations to replacement channels to the extent legally required, or such channels do not permit us to maintain the same level of service, we may be unable to maintain the viewership these stations currently have, which could harm our ratings and advertising revenue or, in the worst case, cause us to discontinue operations at these low-power television stations.

*Our conversion to digital television, as required by the FCC, may not result in commercial benefit unless there is sufficient consumer demand.*

The FCC required full-power television stations in the United States to begin broadcasting a digital television, or DTV, signal by May 1, 2002. The FCC has allocated an additional television channel to most such station owners so that each full-power television station can broadcast a DTV signal on the additional channel while continuing to broadcast an analog signal on the station's original channel. As part of the transition from analog to DTV, full-power television station owners may be required to stop broadcasting analog signals and relinquish their analog channels to the FCC no later than February 17, 2009.

FCC rules allowed us initially to satisfy the obligation for our full-power television stations to begin broadcasting a DTV signal by broadcasting a lower-powered signal that serves at least each full-power television station's applicable community of license. In most instances, this rule permitted us to install temporary DTV facilities of a lower power level, which does not require the degree of capital investment that we had anticipated would be necessary to meet the requirements of our stations' DTV authorizations. Our initial cost of converting our full-power

stations to DTV, therefore, has been considerably lower than it would have been if we were required to operate immediately at the full signal strength provided for by our DTV authorizations.

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We are currently broadcasting DTV signals for nearly all of our full-power television stations at lower power levels by means of temporary DTV facilities, pursuant to FCC authorization. The FCC has required us to reach full-power operation, in order to protect the service contours we have sought for our full-service stations, on or before July 1, 2006. All on-air digital full-service stations currently must be simulcasting 100% of the video programming of their analog channels or their DTV channels. Until commercial demand for digital television services increases, these digital operations may not prove commercially beneficial. Our stations may continue to broadcast analog signals until the February 17, 2009 deadline for conversion to digital-only operations.

*Because our full-service television stations rely on must carry rights to obtain cable carriage, new laws or regulations that eliminate or limit the scope of our cable carriage rights could have a material adverse impact on our television operations.*

Under the Cable Act, each full-service broadcast station is required to elect, every three years, to exercise the right either to require cable television system operators in its local market to carry its signal, or to prohibit cable carriage or condition it upon payment of a fee or other consideration. Under these must carry provisions of the Cable Act, a broadcaster may demand carriage on a specific channel on cable systems within its market. These must carry rights are not absolute, and under some circumstances, a cable system may be entitled not to carry a given station. Our television stations, for the most part, elected must carry on local cable systems for the three-year election period that commenced January 1, 2006, and, except for isolated cases, have obtained the carriage they requested.

Under current FCC rules, once we have relinquished our analog spectrum, cable systems will be required to carry our digital signals. The FCC's current rules require cable operators to carry only one channel of digital signal from each of our stations, despite the capability of digital broadcasters to broadcast multiple program streams within one station's digital allotment. The FCC has not yet set any rules for how direct broadcast satellite, or DBS, operators must handle digital station carriage, but we do not expect that they will be materially different from the obligations imposed on cable television systems.

The extent of the must carry rights television stations will have after they make the transition to DTV could still be changed as the DTV transition is implemented. New laws or regulations that eliminate or limit the scope of our cable carriage rights could have a material adverse impact on our television operations. We cannot predict what final rules the FCC ultimately will adopt or what effect those rules will have on our business.

Our low-power television stations do not have cable must carry rights. Some of our low-power television stations are carried on cable systems as they provide broadcast programming the cable systems desire. We may face future uncertainty with respect to the availability of cable carriage for our stations in seven markets where we currently hold only a low-power license.

*The policies of direct broadcast satellite companies may make it more difficult for their customers to receive our local broadcast station signals.*

The Satellite Home Viewer Improvement Act of 1999, or SHVIA, allows DBS television companies, which are currently DirecTV and EchoStar/Dish Network, for the first time to transmit local broadcast television station signals back to their subscribers in local markets. In exchange for this privilege, however, SHVIA requires that in television markets in which a DBS company elects to pick up and retransmit any local broadcast station signals, the DBS provider must also offer to its subscribers signals from all other qualified local broadcast television stations in that market. Our broadcast television stations in markets for which DBS operators have elected to carry local stations have sought to qualify for carriage under this carry one/carry all rule.



A controversy has arisen in the manner in which EchoStar/Dish Network has implemented the carry one/carry all rule. In order to get signals from all local stations, including the signals from our stations, EchoStar/Dish

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Network subscribers were being required to install a second receiving dish to receive all of the local stations in some markets. This was an inconvenience for the typical DBS subscriber and, as a result, limited the size of the viewership for our stations available only on the second dish under the carry one/carry all rule. The FCC has determined that EchoStar/Dish Network cannot require use of a second dish for carriage of local signals. EchoStar/Dish Network must implement alternative methods of complying with its SHVIA obligations, which has resulted in EchoStar/Dish Network not delivering certain of our stations to its customers primary dish. EchoStar/Dish Network has petitioned the FCC for reconsideration of this decision, and other parties have asked for review as to whether EchoStar/Dish Network was entitled to comply by any means other than by placing all television stations on the same dish. At this time, we cannot predict the outcome of this dispute or its effect on our stations ability to reach viewers who subscribe to EchoStar/Dish Network services.

The SHVIA expired in 2004 and Congress adopted the Satellite Home Viewer Extension and Reauthorization Act of 2004, or SHVERA. The SHVERA legislation requires the elimination of any second dish service by June of 2006. We do not currently expect the FCC to alter this deadline.

*The FCC's new ownership rules could lead to increased market power for our competitors.*

On June 2, 2003, the FCC revised its national ownership policy, modified television and cross-ownership restrictions, and changed its methodology for defining radio markets. The future of the FCC's ownership rules remains uncertain due to the decision of the federal courts to remand the FCC's decision for further review by the FCC, except for provisions dealing with how the FCC determines the number of stations in local radio markets which were permitted to go into effect. Congress has also indicated its concern over the FCC's new rules and legislation has been considered to restrict the changes. To date, however, only a reduction in the nationwide television cap, to 39% of the viewing public, has been the subject of federal legislation. Accordingly, the impact of changes in the FCC's restrictions on how many stations a party may own, operate and/or control and on our future acquisitions and competition from other companies is difficult to predict at this time, but could result in our competitors ability to increase their presence in the markets in which we operate.

## **Available Information**

We make available free of charge on our corporate website, [www.entravis.com](http://www.entravis.com), the following reports, and amendments to those reports, filed or furnished pursuant to Sections 13(a) or 15(d) of the Exchange Act, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC:

our annual report on Form 10-K;

our quarterly reports on Form 10-Q;

our current reports on Form 8-K; and

changes in the stock ownership of our directors and executive officers.

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The information on our website is not, and shall not be deemed to be, a part of this report or incorporated by reference into this or any other filing we make with the SEC.

### **ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

### **ITEM 2. PROPERTIES**

Our corporate headquarters are located in Santa Monica, California. We lease approximately 16,000 square feet of space in the building housing our corporate headquarters under a lease expiring in 2012. We also lease

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approximately 38,000 square feet of space in the building housing our radio network and our outdoor division headquarters in Los Angeles, California, under a lease expiring in 2016.

The types of properties required to support each of our television and radio stations typically include offices, broadcasting studios and antenna towers where broadcasting transmitters and antenna equipment are located. The majority of our office, studio and tower facilities are leased pursuant to long-term leases. We also own the buildings and/or land used for office, studio and tower facilities at certain of our television and/or radio properties. We own substantially all of the equipment used in our television and radio broadcasting business. Substantially all of our outdoor advertising structures are located on property pursuant to leases that automatically renew unless either the property owner or we opt out upon proper notice. We believe that all of our facilities and equipment are adequate to conduct our present operations. We also lease certain facilities and broadcast equipment in the operation of our business. See Note 5 to Notes to Consolidated Financial Statements.

**ITEM 3. LEGAL PROCEEDINGS**

We currently and from time to time are involved in litigation incidental to the conduct of our business, but we are not currently a party to any lawsuit or proceeding which, in the opinion of management, is likely to have a material adverse effect on us.

**ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

None.

**Table of Contents****PART II****ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS**

Our Class A common stock has been listed and traded on The New York Stock Exchange since August 2, 2000 under the symbol EVC. The following table sets forth the range of high and low sales prices reported by The New York Stock Exchange for our Class A common stock for the periods indicated:

	<u>High</u>	<u>Low</u>
Year Ended December 31, 2004		
First Quarter	\$ 11.67	\$ 8.32
Second Quarter	\$ 9.61	\$ 7.38
Third Quarter	\$ 8.49	\$ 6.85
Fourth Quarter	\$ 8.57	\$ 7.06
Year Ending December 31, 2005		
First Quarter	\$ 9.08	\$ 7.27
Second Quarter	\$ 9.11	\$ 7.25
Third Quarter	\$ 9.50	\$ 7.14
Fourth Quarter	\$ 8.50	\$ 6.90

As of March 14, 2006, there were approximately 148 holders of record of our Class A common stock. We believe that the number of beneficial owners of our Class A common stock substantially exceeds this number.

**Dividend Policy**

We have never declared or paid any cash dividends on any class of our common stock. We currently intend to retain all future earnings, if any, to fund the development and growth of our business and do not anticipate paying any cash dividends on any class of our common stock in the foreseeable future. In addition, our syndicated bank credit facility restricts our ability to pay dividends on any class of our common stock.

**Securities Authorized for Issuance Under Equity Compensation Plans**

The following table sets forth information regarding outstanding options and shares reserved for future issuance under our equity compensation plans as of December 31, 2005:

<u>Plan Category</u>	Number of Securities	Weighted-Average	Number of Securities
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	to be Issued upon Exercise of Outstanding Options, Warrants and Rights	Exercise Price of Outstanding Options, Warrants and Rights	Remaining Available for Future Issuance Under Equity Compensation Plans (excluding Securities Reflected in the First Column)
Equity compensation plans approved by security holders:			
Incentive Stock Plans (1)	10,968,712	\$ 10.75	9,250,275
Employee Stock Purchase Plan	N/A(2)	N/A(2)	2,554,225
Equity compensation plans not approved by security holders			
<b>Total</b>	<b>10,968,712</b>	<b>\$ 10.75</b>	<b>11,804,500</b>

(footnotes on next page)

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(footnotes from preceding page)

- (1) Represents information with respect to both our 2000 Omnibus Equity Incentive Plan and our 2004 Equity Incentive Plan. No options, warrants or rights have been issued other than pursuant to these plans.
- (2) Our 2001 Employee Stock Purchase Plan permits full-time employees to have payroll deductions made to purchase shares of our Class A common stock during specified purchase periods. The purchase price is the lower of 85% of (1) the fair market value per share of our Class A common stock on the last business day before the purchase period begins and (2) the fair market value per share of our Class A common stock on the last business day of the purchase period. Consequently, the price at which shares will be purchased for the purchase period currently in effect is not known.

**Table of Contents****ITEM 6. SELECTED FINANCIAL DATA**

Presented below are our selected financial data for each of the five fiscal years in the period ended December 31, 2005.

The data as of December 31, 2005, 2004, 2003, 2002 and 2001 and for each of the five fiscal years in the period ended December 31, 2005 are derived from, and are qualified by reference to, our audited financial statements and should be read in conjunction therewith and the notes thereto. We historically have experienced significant growth primarily due to our acquisition strategy. Therefore, we may not experience the same rate of growth in 2006 that we experienced in prior years.

(In thousands, except per share data)

	Year Ended December 31,				
	2005	2004	2003	2002	2001
<b>Statements of Operations Data:</b>					
Net revenue	\$ 280,964	\$ 259,053	\$ 237,956	\$ 218,450	\$ 189,049
Direct operating expenses	120,285	112,574	106,961	100,324	86,792
Selling, general and administrative expenses	51,526	49,770	50,091	45,823	39,526
Corporate expenses	16,745	16,779	14,298	15,300	14,190
Loss (gain) on sale of assets		(3,487)	945	707	(4,975)
Non-cash stock-based compensation (1)	1,221	133	1,182	2,942	3,243
Depreciation and amortization	46,411	42,795	43,684	40,649	118,837
	236,188	218,564	217,161	205,745	257,613
Operating income (loss)	44,776	40,489	20,795	12,705	(68,564)
Interest expense	(29,848)	(28,282)	(26,892)	(24,913)	(22,253)
Interest income	966	456	145	150	1,281
Loss on debt extinguishment	(27,969)				
Income (loss) before income taxes	(12,075)	12,663	(5,952)	(12,058)	(89,536)
Income tax benefit (expense)	2,338	(7,044)	(968)	122	22,999
Income (loss) before equity in net earnings of nonconsolidated affiliates	(9,737)	5,619	(6,920)	(11,936)	(66,537)
Equity in net earnings of nonconsolidated affiliates	80	24	316	213	27
Income (loss) before discontinued operations	(9,657)	5,643	(6,604)	(11,723)	(66,510)
Gain on disposal of discontinued operations		521	9,346		
Income (loss) from discontinued operations			(475)	1,078	715
Net income (loss)	(9,657)	6,164	2,267	(10,645)	(65,795)
Accretion of preferred stock redemption value		(15,913)	(11,348)	(10,201)	(10,117)



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Net loss applicable to common stockholders	\$ (9,657)	\$ (9,749)	\$ (9,081)	\$ (20,846)	\$ (75,912)
Net loss per share applicable to common stockholders, basic and diluted	\$ (0.08)	\$ (0.09)	\$ (0.08)	\$ (0.18)	\$ (0.66)
Weighted average common shares outstanding, basic and diluted	124,294	105,758	112,612	119,111	115,223

Year Ended December 31,

	2005	2004	2003	2002	2001
<b>Other Data:</b>					
Capital expenditures	\$ 19,854	\$ 15,572	\$ 17,661	\$ 19,533	\$ 28,875
<b>Balance Sheet Data:</b>					
Cash and cash equivalents	\$ 65,610	\$ 46,969	\$ 19,806	\$ 12,201	\$ 18,336
Total assets	1,743,159	1,689,712	1,686,968	1,573,481	1,535,517
Long-term debt, including current portion	506,602	482,976	377,615	305,878	252,703
Series A mandatorily redeemable convertible preferred stock			112,269	100,921	90,720
Total stockholders' equity	\$ 1,030,633	\$ 1,037,672	\$ 1,046,001	\$ 1,015,043	\$ 987,395

(1) Non-cash stock-based compensation consists primarily of compensation expense relating to stock awards granted to our employees and consultants.

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**ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following discussion of our consolidated results of operations and cash flows for the years ended December 31, 2005, 2004 and 2003 and consolidated financial condition as of December 31, 2005 and 2004 should be read in conjunction with our consolidated financial statements and the related notes included elsewhere in this document.

**OVERVIEW**

We are a diversified Spanish-language media company with a unique portfolio of television, radio and outdoor advertising assets, reaching approximately 75% of all Hispanics in the United States. We operate in three reportable segments: television broadcasting, radio broadcasting and outdoor advertising.

As of the date of filing this report, we own and/or operate 48 primary television stations that are located primarily in the southwestern United States. We own and operate 52 radio stations (40 FM and 12 AM) located primarily in Arizona, California, Colorado, Florida, Nevada, New Mexico and Texas. Our outdoor advertising segment consists of approximately 10,600 advertising faces located primarily in Los Angeles and New York.

The comparability of our results between 2005 and 2004 is significantly affected by acquisitions and dispositions in those periods. In those years, we primarily acquired new media properties in markets where we already owned existing media properties. While new media properties contribute to the financial results of their markets, we do not attempt to measure their effect as they typically are integrated into existing operations.

We generate revenue from sales of national and local advertising time on television and radio stations and advertising on our billboards. Advertising rates are, in large part, based on each medium's ability to attract audiences in demographic groups targeted by advertisers. We recognize advertising revenue when commercials are broadcast and when outdoor advertising services are provided. We do not obtain long-term commitments from our advertisers and, consequently, they may cancel, reduce or postpone orders without penalties. We pay commissions to agencies for local, regional and national advertising. For contracts directly with agencies, we record net revenue from these agencies. Seasonal revenue fluctuations are common in the broadcasting and outdoor advertising industries and are due primarily to variations in advertising expenditures by both local and national advertisers.

Our primary expenses are employee compensation, including commissions paid to our sales staffs and amounts paid to our national representative firms, as well as expenses for marketing, promotion and selling, technical, local programming, engineering, leasing and general and administrative. Our local programming costs for television consist primarily of costs related to producing a local newscast in most of our markets.

***Highlights***

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Despite continuing competition for advertising revenue among broadcasters and between the broadcast industry and other media, we experienced growth for the year ended December 31, 2005, and net revenue of \$281 million. Of that amount, revenue generated by our television segment accounted for 52%, revenue generated by our radio segment accounted for 36% and revenue generated by our outdoor segment accounted for 12%.

Our television segment led our success again in 2005, generating \$146 million in net revenue as we continued to sustain solid ratings across our station group. Our television results were driven by continued growth in our top advertising categories, including automotive, services, retail services and fast-food restaurants. We continue to enjoy significant revenue growth from our television stations located in markets with rapidly growing Hispanic populations, such as Hartford, Tampa, Orlando, Denver, and Washington, D.C., each of which experienced greater than 15% net revenue growth in 2005.

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In addition, in June 2005, certain of our Mexican affiliates acquired all of the outstanding capital stock of the television licensee of XHRIO-TV in Matamoros, Tamaulipas, Mexico, serving the McAllen, Texas market, as well as substantially all of the assets related to such station, and we provide the programming and related services to the station under a time brokerage arrangement. In August 2005, XHRIO-TV was launched as a Fox affiliate, which we expect to complement our existing media properties, including our Univision and TeleFutura affiliates, and to further expand our reach among key young adult demographic groups in that market.

Our radio segment also had a solid 2005, contributing \$101 million in net revenue and experiencing growth in local and national sales significantly higher than that of the general radio industry. We continue to focus on local sales efforts, which accounted for 76% of total sales in 2005.

During 2005 we created a third network format, José: Toca lo Que Quiere ( plays what he wants ), which features a mix of Spanish-language adult contemporary and Mexican regional hits from the 1970s through the present. We believe that broadcasting our network programming provides us with opportunities to increase sales by providing our stations with well-programmed formats with a track record of success, and we have increased the number of stations broadcasting one of our three network formats to 35 stations in 17 markets. During 2005 we successfully switched to our Super Estrella format on six stations in five markets and our José: Toca lo que Quiere ( plays what he wants ) format on seven stations in seven markets.

In addition, we continued our strategy of divesting assets in markets where we did not see the opportunity to grow to scale and build out full clusters. For example, in 2004 we disposed of non-core radio assets in Chicago and Fresno and in January 2006 we disposed of radio stations KBRG-FM and KLOK-AM, serving the San Francisco/San Jose, California market. The sale of these properties allows us to redeploy capital to markets with greater growth and earning potential and has allowed us to repurchase shares of our Class U common stock. In October 2004, we acquired an FM radio station in the Sacramento, California market, which increased our cluster to four stations in this important U.S. Hispanic market. In February 2005, we acquired radio station KAIQ-FM in the Lubbock, Texas market, giving us one FM and one AM radio station in the Lubbock market in addition to our Univision affiliate.

Our outdoor segment provided \$34 million of our net revenue in 2005, and benefited from strong overall demand for outdoor advertising in New York and Los Angeles. In addition, increased local sales played a key role in the growth of our outdoor advertising operations in 2005. We have made a concerted effort to strengthen the staffing and training of our local sales force, and we anticipate that this focus will continue in 2006.

We also continue to grow our transit advertising operations, and in April 2005 we entered into a three-year agreement with the City of Sacramento to sell advertising on municipal buses. We believe that expanding our transit advertising creates opportunities to provide broader advertising coverage for national advertisers.

We also took several key steps in 2005 toward strengthening our balance sheet and improving our capital structure. In September, we refinanced our former \$400 million syndicated bank credit facility and completed a tender offer for our \$225 million senior subordinated notes with the proceeds from a new \$650 million senior secured syndicated bank credit facility. In addition, in January 2006, we acquired approximately 12.6 million shares of our Class U common stock held by Univision in exchange for the assets of radio stations KBRG-FM and KLOK-AM, serving the San Francisco/San Jose, California market. In March 2006, we repurchased 7 million shares of our Class U common stock held by Univision for \$51.1 million.

## ***Acquisitions and Dispositions***

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In February 2005, we acquired the assets of television stations KVTF-CA and KTFV-CA in the McAllen, Texas market and the assets of television station KETF-CA in the Laredo, Texas market, for an aggregate of approximately \$3.8 million.

Also in February 2005, we acquired the assets of radio station KAIQ-FM in the Lubbock, Texas market for approximately \$1.7 million.

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In June 2005, certain of our Mexican affiliates acquired all of the outstanding capital stock of the television licensee of XHRIO-TV in Matamoros, Tamaulipas, Mexico, serving the McAllen, Texas market, as well as substantially all of the assets related to such station, for an aggregate of approximately \$13.2 million. In August 2005, XHRIO-TV was launched as a Fox affiliate in that market.

We evaluated the transferred set of activities, assets, inputs, outputs and processes from each of our completed 2005 acquisitions and determined that the items excluded were significant and that each of these acquisitions was not considered a business.

In addition, in January 2006, we sold the assets of radio stations KBRG-FM and KLOK-AM, serving the San Francisco/San Jose, California market, to Univision for \$90 million. Univision paid the full amount of the purchase price in the form of approximately 12.6 million shares of our Class U common stock held by Univision.

In February 2006, we acquired the assets of television stations KTIZ-LP, KSFE-LP, KLIA-LP and KFTN-LP in the McAllen, Texas market in exchange for the assets of television station KTFV-CA in the McAllen, Texas market and approximately \$0.8 million.

### ***Relationship with Univision***

Univision currently owns less than 15% of our common stock on a fully-converted basis. As of December 31, 2005, Univision owned approximately 30% of our common stock on a fully-converted basis. In connection with its merger with Hispanic Broadcasting Corporation in September 2003, Univision entered into an agreement with the U.S. Department of Justice, or DOJ, pursuant to which Univision agreed, among other things, to ensure that its percentage ownership of our company will not exceed 15% by March 26, 2006 and 10% by March 26, 2009. In January 2006, we sold the assets of radio stations KBRG-FM and KLOK-AM, serving the San Francisco/San Jose, California market, to Univision for \$90 million. Univision paid the full amount of the purchase price in the form of approximately 12.6 million shares of our Class U common stock held by Univision. Subsequently, in March 2006, we repurchased 7 million shares of our Class U common stock held by Univision.

Univision is the holder of all of our issued and outstanding Class U common stock. The Class U common stock has limited voting rights and does not include the right to elect directors. However, as the holder of all of our issued and outstanding Class U common stock, Univision currently has the right to approve any merger, consolidation or other business combination involving our company, any dissolution of our company and any assignment of the Federal Communications Commission, or FCC, licenses for any of our company's Univision-affiliated television stations. Each share of Class U common stock is automatically convertible into one share (subject to adjustment for stock splits, dividends or combinations) of our Class A common stock in connection with any transfer to a third party that is not an affiliate of Univision.

Univision acts as the Company's exclusive sales representative for the sale of all national advertising aired on Univision-affiliate television stations. During the years ended December 31, 2005 and 2004, the amount paid by the Company to Univision in this capacity was \$9.3 and \$9.6 million, respectively.

In September 2005, we entered into an agreement with Univision under which we have agreed, at Univision's request, to sell in an underwritten public offering up to a specified number of shares of our Class A common stock previously registered with the SEC, and concurrently with the consummation of that public offering, to repurchase the same number of shares of our Class U common stock owned by Univision, for an amount equal to the gross proceeds of the offering minus underwriting discounts and commissions. Under this agreement, Univision has agreed

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to refrain from exercising any right to demand the registration of the sale of such common stock provided to it under an investor rights agreement, as amended, between Univision, the other stockholders named therein and us until a period of time after giving notice to us of its request to consummate such a sale transaction.

**Table of Contents****RESULTS OF OPERATIONS**

Separate financial data for each of our operating segments is provided below. Segment operating profit (loss) is defined as operating profit (loss) before corporate expenses and non-cash stock-based compensation. We evaluate the performance of our operating segments based on the following (in thousands):

	Years Ended December 31,			% Change	% Change
	2005	2004	2003	2005 to 2004	2004 to 2003
<b>Net Revenue</b>					
Television	\$ 146,184	\$ 135,866	\$ 121,221	8%	12%
Radio	100,582	92,239	86,526	9%	7%
Outdoor	34,198	30,948	30,209	11%	2%
<b>Consolidated</b>	<b>280,964</b>	<b>259,053</b>	<b>237,956</b>	<b>8%</b>	<b>9%</b>
<b>Direct operating expenses</b>					
Television	58,420	55,498	50,909	5%	9%
Radio	37,775	35,182	35,160	7%	0%
Outdoor	24,090	21,894	20,892	10%	5%
<b>Consolidated</b>	<b>120,285</b>	<b>112,574</b>	<b>106,961</b>	<b>7%</b>	<b>5%</b>
<b>Selling, general and administrative expenses</b>					
Television	22,295	21,195	22,903	5%	(7)%
Radio	24,310	23,615	22,693	3%	4%
Outdoor	4,921	4,960	4,495	(1)%	10%
<b>Consolidated</b>	<b>51,526</b>	<b>49,770</b>	<b>50,091</b>	<b>4%</b>	<b>(1)%</b>
<b>Depreciation and amortization</b>					
Television	15,485	14,126	14,786	10%	(4)%
Radio	8,317	7,292	7,798	14%	(6)%
Outdoor	22,609	21,377	21,100	6%	1%
<b>Consolidated</b>	<b>46,411</b>	<b>42,795</b>	<b>43,684</b>	<b>8%</b>	<b>(2)%</b>
<b>Segment operating profit (loss)</b>					
Television	49,984	45,047	32,623	11%	38%
Radio	30,180	26,150	20,875	15%	25%
Outdoor	(17,422)	(17,283)	(16,278)	1%	6%
<b>Consolidated</b>	<b>62,742</b>	<b>53,914</b>	<b>37,220</b>	<b>16%</b>	<b>45%</b>
Corporate expenses	16,745	16,779	14,298	(0)%	17%
Loss (gain) on sale of assets		(3,487)	945	(100)%	*
Non-cash stock-based compensation	1,221	133	1,182	*	(89)%



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Operating income	\$ 44,776	\$ 40,489	\$ 20,795	11%	95%
<b>Broadcast cash flow (1)</b>					
Television	\$ 65,469	\$ 59,173	\$ 47,409	11%	25%
Radio	38,497	33,442	28,673	15%	17%
Outdoor	5,187	4,094	4,822	27%	(15)%
Consolidated	\$ 109,153	\$ 96,709	\$ 80,904	13%	20%
<b>EBITDA as adjusted (1)</b>					
	\$ 92,408	\$ 79,930	\$ 66,606	16%	20%
<b>Capital expenditures</b>					
Television	\$ 14,843	\$ 10,494	\$ 8,799		
Radio	3,347	3,311	8,362		
Outdoor	1,664	1,767	500		
Consolidated	\$ 19,854	\$ 15,572	\$ 17,661		
<b>Total assets</b>					
Television	\$ 493,904	\$ 420,588	\$ 393,607		
Radio	984,559	1,053,754	1,024,911		
Outdoor	195,242	215,370	233,767		
Assets held for sale (Radio)	69,454		34,683		
Consolidated	\$ 1,743,159	\$ 1,689,712	\$ 1,686,968		

(footnotes on next page)

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(footnotes from preceding page)

\* Percentage not meaningful.

- (1) Broadcast cash flow means operating income (loss) before corporate expenses, loss (gain) on sale of assets, depreciation and amortization and non-cash stock-based compensation. EBITDA as adjusted means broadcast cash flow less corporate expenses. We use the term EBITDA as adjusted because that measure does not include non-cash stock-based compensation and gain (loss) on sale of assets. We evaluate and project the liquidity and cash flows of our business using several measures, including broadcast cash flow and EBITDA as adjusted. We consider these measures as important indicators of liquidity relating to our operations, as they eliminate the effects of non-cash gain (loss) on sale of assets, non-cash depreciation and amortization and non-cash stock-based compensation awards. We use these measures to evaluate liquidity and cash flow improvement from year to year as they eliminate non-cash expense items. We believe that our investors should use these measures because they may provide a better comparability of our liquidity to that of our competitors.

Our calculation of EBITDA as adjusted included herein is substantially similar to the measures used in the financial covenants included in our syndicated bank credit facility, where EBITDA as adjusted is referred to as consolidated adjusted EBITDA. Under our syndicated bank credit facility, our ratio of consolidated total debt minus cash, up to a maximum of \$20 million, to consolidated adjusted EBITDA may not exceed 7.5 to 1 on a pro forma basis for the prior full four quarters. The actual ratios of net indebtedness to consolidated adjusted EBITDA were as follows (in each case as of December 31): 2005, 5.3 to 1; 2004, 5.8 to 1; 2003, 5.4 to 1. We entered into our new syndicated bank credit facility in September 2005 so we were not subject to the same calculations and covenants in prior years. For consistency of presentation, however, the foregoing historical ratios assume that our current definitions had been applied for all periods.

While we and many in the financial community consider broadcast cash flow and EBITDA as adjusted to be important, they should be considered in addition to, but not as a substitute for or superior to, other measures of liquidity and financial performance prepared in accordance with accounting principles generally accepted in the United States of America, such as cash flows from operating activities, operating income and net income. In addition, our definitions of broadcast cash flow and EBITDA as adjusted differ from those of many companies reporting similarly named measures.

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Broadcast cash flow and EBITDA as adjusted are non-GAAP measures. The most directly comparable GAAP financial measure to each of broadcast cash flow and EBITDA as adjusted is net income (loss). A reconciliation of these non-GAAP measures to net income (loss) for the years ended December 31, 2005, 2004 and 2003 are as follows (in thousands):

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Broadcast cash flow	\$ 109,153	\$ 96,709	\$ 80,904
Corporate expenses	16,745	16,779	14,298
EBITDA as adjusted	92,408	79,930	66,606
Loss (gain) on sale of assets		(3,487)	945
Non-cash stock-based compensation	1,221	133	1,182
Depreciation and amortization	46,411	42,795	43,684
Operating income	44,776	40,489	20,795
Interest expense	(29,848)	(28,282)	(26,892)
Interest income	966	456	145
Loss on debt extinguishment	(27,969)		
Income (loss) before income taxes	(12,075)	12,663	(5,952)
Income tax benefit (expense)	2,338	(7,044)	(968)
Income (loss) before equity in net earnings of nonconsolidated affiliates	(9,737)	5,619	(6,920)
Equity in net earnings of nonconsolidated affiliates	80	24	316
Income (loss) before discontinued operations	(9,657)	5,643	(6,604)
Gain on disposal of discontinued operations		521	9,346
Loss from discontinued operations			(475)
Net income (loss)	\$ (9,657)	\$ 6,164	\$ 2,267

**Year Ended December 31, 2005 Compared to Year Ended December 31, 2004****Consolidated Operations**

*Net Revenue.* Net revenue increased to \$281.0 million for the year ended December 31, 2005 from \$259.1 million for the year ended December 31, 2004, an increase of \$21.9 million. Of the overall increase, \$10.3 million came from our television segment. The increase from this segment was primarily attributable to an increase in local and national advertising sales, primarily attributable to increased advertising sold (referred to as inventory in our industry). Additionally, \$8.3 million of the overall increase came from our radio segment. The increase from this segment was primarily attributable to an increase in local advertising rates, as well as revenue associated with radio station KBMB-FM acquired in the second half of 2004 and radio station KDL-D-FM/KDLE-FM. The remaining \$3.3 million of the overall increase came from our outdoor segment and was primarily attributable to an increase in both local and national advertising rates, as well as revenue associated with the expansion of our outdoor division in Sacramento.

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We currently anticipate that the number of advertisers purchasing Spanish-language advertising will continue to rise and will result in greater demand for our inventory. We expect that this increased demand will, in turn, allow us to continue to increase our rates, resulting in continued increases in net revenue in future periods.

*Direct Operating Expenses.* Direct operating expenses increased to \$120.3 million for the year ended December 31, 2005 from \$112.6 million for the year ended December 31, 2004, an increase of \$7.7 million. Of the overall increase, \$2.9 million came from our television segment. The increase from this segment was primarily attributable to an increase in national representation fees and commissions associated with the increase in net revenue, an increase in the cost of ratings services and an increase in salaries due to the addition or expansion of newscasts in the San Diego, Santa Barbara and Boston markets. Additionally, \$2.6 million of the

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overall increase came from our radio segment. The increase from this segment was primarily attributable to an increase in expenses associated with radio station KBMB-FM acquired in the second half of 2004 and radio station KDLD-FM/KDLE-FM. The overall increase also came from an increase in outdoor direct operating expenses, which accounted for \$2.2 million of the overall increase. This increase in the outdoor segment was primarily attributable to higher lease rents for our billboard locations and expenses associated with the expansion of our outdoor division in Sacramento. As a percentage of net revenue, direct operating expenses remained the same at 43% for each of the years ended December 31, 2005 and 2004.

We currently anticipate that, as our net revenue increases in future periods, our direct operating expenses correspondingly will continue to increase. However, on a long-term basis, we expect that net revenue increases will outpace direct operating expense increases such that direct operating expenses as a percentage of net revenue will decrease in future periods.

*Selling, General and Administrative Expenses.* Selling, general and administrative expenses increased to \$51.5 million for the year ended December 31, 2005 from \$49.8 million for the year ended December 31, 2004, an increase of \$1.7 million. The overall increase came mainly from our television segment, which accounted for an increase of \$1.1 million. The increase from this segment was primarily attributable to a one-time recovery of expenses of \$1.0 million in 2004 in accordance with the terms of an amendment to our TeleFutura marketing and sales agreement with Univision. Additionally, \$0.7 million of the overall increase came from our radio segment. The increase from this segment was primarily attributable to expenses associated with radio station KBMB-FM acquired in the second half of 2004 and radio station KDLD-FM/KDLE-FM. The overall increase was partially offset by a \$0.1 million decrease in outdoor selling, general and administrative expenses. This decrease was primarily attributable to severance amounts paid to the former president of our outdoor division in 2004, partially offset by additional expenses associated with the expansion of our outdoor division in Sacramento. As a percentage of net revenue, selling, general and administrative expenses decreased to 18% for the year ended December 31, 2005 from 19% for the year ended December 31, 2004. Selling, general and administrative expenses as a percentage of net revenue decreased because selling, general and administrative expenses increases were outpaced by increases in net revenue.

On a long-term basis, although we currently anticipate that selling, general and administrative expenses will increase in future periods, we expect that net revenue increases will outpace any selling, general and administrative expense increases such that selling, general and administrative expenses as a percentage of net revenue will continue to decrease in future periods.

*Corporate Expenses.* Corporate expenses decreased to \$16.7 million for the year ended December 31, 2005 from \$16.8 million for the year ended December 31, 2004, a decrease of \$0.1 million. The decrease was primarily attributable to not having expenses related to financing the repurchase of our Series A preferred stock that we incurred in 2004. The decrease was partially offset by increased expenses in the current year, primarily attributable to higher wages and expenses associated with our compliance with the Sarbanes-Oxley Act of 2002, including internal controls. As a percentage of net revenue, corporate expenses remained unchanged at 6% for each of the years ended December 31, 2005 and 2004.

We currently anticipate that corporate expenses will increase in future periods, primarily due to recording non-cash stock-based compensation in corporate expense in 2006 to comply with Statement of Financial Accounting Standards ( SFAS ) No. 123 (Revised 2004), Share-Based Payment ( SFAS No. 123R ). Please see Recently Issued Accounting Pronouncements below. Nevertheless, we expect that these increases will be outpaced by net revenue increases such that corporate expenses as a percentage of net revenue will be constant or decrease in future periods.

*Gain (Loss) on Sale of Assets.* The gain on sale of assets was \$3.5 million for the year ended December 31, 2004. The gain was primarily due to the sale of the assets of our radio stations in the Chicago, Illinois and Fresno, California markets.



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*Depreciation and Amortization.* Depreciation and amortization increased to \$46.4 million for the year ended December 31, 2005 from \$42.8 million for the year ended December 31, 2004, an increase of \$3.6 million. The increase was primarily attributable to additional depreciation on digital capital expenditures, additional depreciation and amortization relating to the acquisition of radio station KBMB-FM in the second half of 2004 and higher depreciation on certain billboards to be abandoned in New York in 2006.

*Non-Cash Stock-Based Compensation.* Non-cash stock-based compensation was \$1.2 million for the year ended December 31, 2005 compared to \$0.1 million for the year ended December 31, 2004, an increase of \$1.1 million. The increase was primarily attributable to accelerating the vesting of non-employee stock option grants with an exercise price greater than \$7.80 in October 2005. Non-cash stock-based compensation consists of non-employee stock option awards.

As a result of outstanding unvested options, we anticipate non-cash stock-based compensation of approximately \$1.6 million will be recorded in direct operating expense, selling, general and administrative expense and corporate expense to comply with SFAS No. 123R in 2006.

*Operating Income.* As a result of the above factors, operating income increased to \$44.8 million for the year ended December 31, 2005 from \$40.5 million for the year ended December 31, 2004, an increase of \$4.3 million.

*Interest Expense.* Interest expense increased to \$29.8 million for the year ended December 31, 2005 from \$28.3 million for the year ended December 31, 2004, an increase of \$1.5 million. The increase was primarily attributable to additional borrowings under our syndicated bank credit facility to finance the repurchase of all of our Series A mandatorily redeemable convertible preferred stock during the third quarter of 2004, partially offset by a \$3.8 million reduction related to the increase in fair value of our interest rate swap agreements in 2005.

*Loss on debt extinguishment.* Loss on debt extinguishment was \$28.0 million for the year ended December 31, 2005. The loss on debt extinguishment was primarily attributable to the premium that we paid upon the completion of the tender for our \$225 million senior subordinated notes, the write-off of the costs associated with those notes, the write-off of the costs associated with our former \$400 million syndicated bank credit facility and a charge for a portion of the fees associated with our new \$650 million syndicated bank credit facility.

*Income Tax Expense.* Our expected tax rate is approximately 40% of pre-tax income or loss, adjusted for permanent tax differences. The tax benefit was less than the expected 40% of the pre-tax loss because of the non-deductible portion of certain items, including state taxes, foreign taxes, the expected disallowance of state net operating loss carryforward amounts and meals and entertainment. We currently have net operating loss carryforwards of approximately \$166 million available to offset future taxable income through the year 2025 that we expect will be utilized prior to their expiration.

*Income (Loss) Before Discontinued Operations.* As a result of the above factors, loss before discontinued operations was \$9.7 million for the year ended December 31, 2005, compared to income before discontinued operations of \$5.6 million for the year ended December 31, 2004.

*Gain on Disposal of Discontinued Operations, Net of Tax.* In July 2003, we sold substantially all of the assets and certain specified liabilities related to our publishing segment. That sale resulted in a gain on disposal of discontinued operations, net of tax, of \$9.3 million for the year ended December 31, 2003. During 2004, we finalized the purchase price adjustment for the sale, which was based on the working capital of the publishing segment as of the closing date. This working capital adjustment resulted in cash received and an additional gain on disposal of discontinued operations, net of tax, of \$0.5 million for the year ended December 31, 2004.





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### **Segment Operations**

#### *Television*

*Net Revenue.* Net revenue in our television segment increased to \$146.2 million for the year ended December 31, 2005 from \$135.9 million for the year ended December 31, 2004, an increase of \$10.3 million. Of the overall increase, \$8.3 million was attributable to our Univision stations and \$2.0 million was attributable to our other stations. The overall increase was attributable to an increase in both local and national advertising sales, primarily due to an increase in inventory sold.

*Direct Operating Expenses.* Direct operating expenses in our television segment increased to \$58.4 million for the year ended December 31, 2005 from \$55.5 million for the year ended December 31, 2004, an increase of \$2.9 million. The increase was primarily attributable to an increase in national representation fees and commissions associated with the increase in net revenue, an increase in the cost of ratings services and an increase in salaries due to the addition or expansion of newscasts in the San Diego, Santa Barbara and Boston markets.

*Selling, General and Administrative Expenses.* Selling, general and administrative expenses in our television segment increased to \$22.3 million for the year ended December 31, 2005 from \$21.2 million for the year ended December 31, 2004, an increase of \$1.1 million. The increase was primarily attributable to a one-time recovery of expenses of \$1.0 million in 2004 in accordance with the terms of an amendment to our TeleFutura marketing and sales agreement with Univision. The increase was also attributable to an increase in salaries, partially offset by lower bad debt expense.

#### *Radio*

*Net Revenue.* Net revenue in our radio segment increased to \$100.6 million for the year ended December 31, 2005 from \$92.2 million for the year ended December 31, 2004, an increase of \$8.4 million. The increase was primarily attributable to an increase in local advertising rates, as well as revenue associated with a full year of operations in 2005 of both radio stations KBMB-FM, acquired in the second half of 2004, and KDLD-FM/KDLE-FM, which we began operating in the second quarter of 2004.

*Direct Operating Expenses.* Direct operating expenses in our radio segment increased to \$37.8 million for the year ended December 31, 2005 from \$35.2 million for the year ended December 31, 2004, an increase of \$2.6 million. The increase was primarily attributable to expenses associated with a full year of operations in 2005 of both radio stations KBMB-FM, acquired in the second half of 2004, and KDLD-FM/KDLE-FM, which we began operating in the second quarter of 2004.

*Selling, General and Administrative Expenses.* Selling, general and administrative expenses in our radio segment increased to \$24.3 million for the year ended December 31, 2005 from \$23.6 million for the year ended December 31, 2004, an increase of \$0.7 million. The increase was primarily attributable to expenses associated with a full year of operations in 2005 of both radio stations KBMB-FM, acquired in the second half of 2004, and KDLD-FM/KDLE-FM, which we began operating in the second quarter of 2004.

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Since we sold the assets of radio stations KBRG-FM and KLOK-AM, serving the San Francisco/San Jose, California market in January 2006, we will not have those results in our future financial results.

### *Outdoor*

*Net Revenue.* Net revenue in our outdoor segment increased to \$34.2 million for the year ended December 31, 2005 from \$30.9 million for the year ended December 31, 2004, an increase of \$3.3 million. The increase was primarily attributable to an increase in both local and national advertising rates, as well as revenue associated with the expansion of our outdoor division in Sacramento.

*Direct Operating Expenses.* Direct operating expenses in our outdoor segment increased to \$24.1 million for the year ended December 31, 2005 from \$21.9 million for the year ended December 31, 2004, an increase of \$2.2

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million. The increase was primarily attributable to higher lease rents for our billboard locations and expenses associated with the expansion of our outdoor division in Sacramento.

*Selling, General and Administrative Expenses.* Selling, general and administrative expenses in our outdoor segment decreased to \$4.9 million for the year ended December 31, 2005 from \$5.0 million for the year ended December 31, 2004, a decrease of \$0.1 million. The decrease was primarily attributable to severance amounts paid to the former president of our outdoor division in 2004, partially offset by additional expenses associated with the expansion of our outdoor division in Sacramento.

## **Year Ended December 31, 2004 Compared to Year Ended December 31, 2003**

### **Consolidated Operations**

*Net Revenue.* Net revenue increased to \$259.1 million for the year ended December 31, 2004 from \$238.0 million for the year ended December 31, 2003, an increase of \$21.1 million. The overall increase came mainly from our television and radio segments, which together accounted for \$20.4 million of the increase. The increase from these segments was attributable to increased advertising sold (referred to as inventory in our industry) and increased rates for that inventory, partially offset by a decrease from our Chicago and Fresno radio stations sold. The overall increase in net revenue also came from an increase in net revenue from our outdoor segment, which accounted for \$0.7 million of the increase.

*Direct Operating Expenses.* Direct operating expenses increased to \$112.6 million for the year ended December 31, 2004 from \$107.0 million for the year ended December 31, 2003, an increase of \$5.6 million. The overall increase came mainly from our television and radio segments, which together accounted for \$4.6 million of the increase. The increase from these segments was primarily attributable to an increase in commissions and national representation fees associated with the increase in net revenue and an increase in news costs due to the addition or expansion of newscasts in certain markets, partially offset by our Chicago and Fresno stations sold. The overall increase also came from an increase in outdoor direct operating expenses, which accounted for \$1.0 million of the overall increase. As a percentage of net revenue, direct operating expenses decreased to 43% for the year ended December 31, 2004 from 45% for the year ended December 31, 2003. Direct operating expenses as a percentage of net revenue decreased because direct operating expense increases were outpaced by increases in net revenue.

*Selling, General and Administrative Expenses.* Selling, general and administrative expenses decreased to \$49.8 million for the year ended December 31, 2004 from \$50.1 million for the year ended December 31, 2003, a decrease of \$0.3 million. Our television segment accounted for a decrease of \$1.7 million. The decrease was primarily attributable to a one-time recovery of prior year expenses of \$1.0 million in accordance with the terms of an amendment to our marketing and sales agreement with Univision and a reduction of losses incurred by our TeleFutura stations under our marketing and sales agreement with Univision. The overall decrease was partially offset by an increase from our radio and outdoor segments of \$1.4 million. The increase was primarily attributable to an increase in salaries, an increase in rent expense and severance amounts paid to the former president of our outdoor division, partially offset by our Chicago and Fresno stations sold. As a percentage of net revenue, selling, general and administrative expenses decreased to 19% for the year ended December 31, 2004 from 21% for the year ended December 31, 2003. Selling, general and administrative expenses as a percentage of net revenue decreased because selling, general and administrative expenses decreased while net revenue increased.

*Corporate Expenses.* Corporate expenses increased to \$16.8 million for the year ended December 31, 2004 from \$14.3 million for the year ended December 31, 2003, an increase of \$2.5 million. The increase was mainly attributable to a \$2.0 million reimbursement from Univision during the year ended December 31, 2003 (offset by \$0.5 million of Univision-related expenses in that same period) for legal and other costs

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associated with the third-party information request that we received in connection with the merger between Univision and Hispanic Broadcasting Corporation. The increase was also attributable to higher legal expenses related to financing the

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repurchase of our Series A preferred stock, higher legal expenses related to our outdoor segment and higher expenses associated with our compliance with the Sarbanes-Oxley Act of 2002, partially offset by lower insurance expenses. As a percentage of net revenue, corporate expenses remained unchanged at 6% for each of the years ended December 31, 2004 and 2003. Excluding the prior year Univision reimbursement and related expenses, corporate expenses as a percentage of net revenue decreased to 6% for the year ended December 31, 2004 from 7% for the year ended December 31, 2003.

*Gain (Loss) on Sale of Assets.* Gain on sale of assets was \$3.5 million for the year ended December 31, 2004, compared to loss on sale of assets of \$0.9 million for the year ended December 31, 2003. The gain was primarily due to the sale of the assets of our radio stations in the Chicago, Illinois and Fresno, California markets.

*Depreciation and Amortization.* Depreciation and amortization decreased to \$42.8 million for the year ended December 31, 2004 from \$43.7 million for the year ended December 31, 2003, a decrease of \$0.9 million. The decrease was primarily due to the sale of the assets of our radio stations in the Chicago, Illinois and Fresno, California markets.

*Non-Cash Stock-Based Compensation.* Non-cash stock-based compensation was \$0.1 million for the year ended December 31, 2004 compared to \$1.2 million for the year ended December 31, 2003, a decrease of \$1.1 million. In 2004, non-cash stock-based compensation consists primarily of non-employee option awards. In 2003, non-cash stock-based compensation consists primarily of compensation expense relating to restricted and unrestricted stock awards granted to our employees during the second quarter of 2000. As of May 2003, all non-cash stock-based compensation expense related to the restricted and unrestricted stock awards made in 2000 has been fully recognized. However, there may continue to be non-cash stock-based compensation costs in the future for any equity instruments that have been or may be granted to non-employees.

*Operating Income.* As a result of the above factors, operating income increased to \$40.5 million for the year ended December 31, 2004 from \$20.8 million for the year ended December 31, 2003, an increase of \$19.7 million.

*Interest Expense.* Interest expense increased to \$28.3 million for the year ended December 31, 2004 from \$26.9 million for the year ended December 31, 2003, an increase of \$1.4 million. The increase was primarily attributable to additional borrowings under our syndicated bank credit facility to finance the acquisition of the radio stations we bought from Big City Radio in April 2003 and to repurchase all of our Series A mandatorily redeemable convertible preferred stock during the third quarter of 2004. These increases were partially offset by a reduction of indebtedness paid from the proceeds of the disposal of our publishing operations in July 2003, the sale of our radio assets in the Chicago, Fresno and Dallas markets in 2004 and cash flow generated from operations.

*Income Tax Expense.* Our expected tax rate is approximately 40% of pre-tax income or loss, adjusted for permanent tax differences. The tax expense was greater than the expected 40% of the pre-tax income because of the non-deductible portion of certain items, including state taxes, foreign taxes, the expected disallowance of state net operating loss carryforward amounts and meals and entertainment. We currently have approximately \$131 million in net operating loss carryforwards expiring through 2023 that we expect will be utilized prior to their expiration.

*Income (Loss) Before Discontinued Operations.* As a result of the above factors, income before discontinued operations was \$5.6 million for the year ended December 31, 2004 compared to a loss before discontinued operations of \$6.6 million for the year ended December 31, 2003.

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*Gain on Disposal of Discontinued Operations, Net of Tax.* In July 2003, we sold substantially all of the assets and certain specified liabilities related to our publishing segment. That sale resulted in a gain on disposal of discontinued operations, net of tax, of \$9.3 million for the year ended December 31, 2003. During 2004, we

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finalized the purchase price adjustment for the sale, which was based on the working capital of the publishing segment as of the closing date. This working capital adjustment resulted in cash received and an additional gain on disposal of discontinued operations, net of tax, of \$0.5 million for the year ended December 31, 2004.

## **Segment Operations**

### ***Television***

*Net Revenue.* Net revenue in our television segment increased to \$135.9 million for the year ended December 31, 2004 from \$121.2 million for the year ended December 31, 2003, an increase of \$14.7 million. Of the overall increase, \$12.5 million was attributable to our Univision stations and \$2.2 million was attributable to our other stations. The overall increase was attributable to an increase in both local and national advertising sales, primarily due to an increase in rates.

*Direct Operating Expenses.* Direct operating expenses in our television segment increased to \$55.5 million for the year ended December 31, 2004 from \$50.9 million for the year ended December 31, 2003, an increase of \$4.6 million. The increase was primarily attributable to an increase in national representation fees and commissions associated with the increase in net revenue, an increase in the cost of ratings services and an increase in news costs due to the addition or expansion of newscasts in the San Diego, Santa Barbara and Boston markets.

*Selling, General and Administrative Expenses.* Selling, general and administrative expenses in our television segment decreased to \$21.2 million for the year ended December 31, 2004 from \$22.9 million for the year ended December 31, 2003, a decrease of \$1.7 million. The decrease was primarily attributable to a one-time recovery of prior year expenses of \$1.0 million in accordance with the terms of an amendment to our marketing and sales agreement with Univision. The decrease was also attributable to a reduction of losses incurred by our TeleFutura stations under that marketing and sales agreement with Univision.

### ***Radio***

*Net Revenue.* Net revenue in our radio segment increased to \$92.2 million for the year ended December 31, 2004 from \$86.5 million for the year ended December 31, 2003, an increase of \$5.7 million. The increase was primarily attributable to a combination of an increase in local advertising sales rates and inventory sold, partially offset by a decrease from our Chicago and Fresno radio stations sold.

*Direct Operating Expenses.* Direct operating expenses in our radio segment were \$35.2 million in each of the years ended December 31, 2004 and 2003. The increase was primarily attributable to an increase in commissions and other sales-related expenses associated with the increase in net revenue, partially offset by a decrease from our Chicago and Fresno radio stations sold.

*Selling, General and Administrative Expenses.* Selling, general and administrative expenses in our radio segment increased to \$23.6 million for the year ended December 31, 2004 from \$22.7 million for the year ended December 31, 2003, an increase of \$0.9 million. The increase was primarily attributable to an increase in salaries and rent expense, partially offset by a decrease from our Chicago and Fresno radio stations sold.

**Outdoor**

*Net Revenue.* Net revenue in our outdoor segment increased to \$30.9 million for the year ended December 31, 2004 from \$30.2 million for the year ended December 31, 2003, an increase of \$0.7 million. The increase was attributable to an increase in local advertising sales, partially offset by a decrease in national advertising sales.

*Direct Operating Expenses.* Direct operating expenses in our outdoor segment increased to \$21.9 million for the year ended December 31, 2004 from \$20.9 million for the year ended December 31, 2003, an increase of \$1.0 million. The increase was primarily attributable to higher lease rents for our billboard locations.



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*Selling, General and Administrative Expenses.* Selling, general and administrative expenses in our outdoor segment increased to \$5.0 million for the year ended December 31, 2004 from \$4.5 million for the year ended December 31, 2003, an increase of \$0.5 million. The increase was primarily attributable to severance amounts paid to the former president of our outdoor division.

## **Liquidity and Capital Resources**

While we have a history of operating losses, we also have a history of generating significant positive cash flow from our operations. We expect to fund anticipated cash requirements (including acquisitions, anticipated capital expenditures and payments of principal and interest on outstanding indebtedness) with cash on hand, cash flows from operations and externally generated funds, such as proceeds from any debt or equity offering and our syndicated bank credit facility. We currently anticipate that funds generated from operations and available borrowings under our syndicated bank credit facility will be sufficient to meet our anticipated cash requirements for the foreseeable future.

During 2005, we refinanced our former \$400 million syndicated bank credit facility and completed a tender offer for our \$225 million senior subordinated notes with the proceeds from a new \$650 million senior secured syndicated bank credit facility.

In January 2006, we acquired approximately 12.6 million shares of our Class U common stock held by Univision in exchange for the assets of radio stations KBRG-FM and KLOK-AM, serving the San Francisco/San Jose, California market. In March 2006, we repurchased 7 million shares of our Class U common stock held by Univision for \$51.1 million using cash generated from operations and unrestricted proceeds which were remaining from our refinanced syndicated bank credit facility.

## ***Syndicated Bank Credit Facility***

In September 2005, we refinanced our former syndicated bank credit facility with a new \$650 million senior secured syndicated bank credit facility consisting of a 7 1/2-year \$500 million term loan and a 6 1/2-year \$150 million revolving facility. The term loan under the new syndicated bank credit facility has been drawn in full, the proceeds of which were used (i) to refinance \$250 million outstanding under our former syndicated bank credit facility, (ii) to complete a tender offer for our previously outstanding \$225 million senior subordinated notes, and (iii) for general corporate purposes.

The term loan matures in 2013 and is subject to automatic quarterly reductions of \$1.25 million starting on January 1, 2006. The revolving facility expires in 2012. Our ability to make additional borrowings under the syndicated bank credit facility is subject to compliance with certain financial covenants, including financial ratios, and other conditions set forth in the syndicated bank credit facility.

Our syndicated bank credit facility is secured by substantially all of our assets, as well as the pledge of the stock of substantially all of our subsidiaries, including our special purpose subsidiary formed to hold our FCC licenses.

The term loan bears interest at LIBOR plus a margin of 1.50%, for a total interest rate of 6.03% at December 31, 2005. In September 2005, we entered into three interest rate swap agreements with a \$500 million aggregate notional amount, with quarterly reductions, that expire on

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October 1, 2010. These interest rate swap agreements convert a portion of our variable rate term loan into a fixed rate obligation of 5.96%, which includes the margin of 1.50%. We expect that as the notional amount of our interest rate swap agreements decline, our term loan amounts will exceed the notional amounts of our interest rate swap agreements. The excess loan amount outstanding over the notional amount of the interest rate swap agreements will incur interest at LIBOR plus 1.50%. As of December 31, 2005, these interest rate swap agreements were not designated for hedge accounting treatment under SFAS No. 133, and as a result, changes in their fair values are reflected currently in

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earnings. At December 31, 2005, the fair value of the interest rate swap agreements was \$3.8 million and is classified as other assets on our balance sheet. For the year ended December 31, 2005, we recognized a reduction of \$3.8 million in interest expense related to the increase in fair value of the interest rate swap agreements.

The revolving facility bears interest at LIBOR plus a margin ranging from 1% to 2% based on our leverage. In addition, we pay a quarterly unused commitment fee ranging from 0.25% to 0.50% per annum, depending on the level of facility usage. As of December 31, 2005, \$500 million was outstanding under our syndicated bank credit facility and \$147 million was available under the revolving facility for future borrowings. We had approximately \$3 million in outstanding letters of credit as of that date, which reduced the amount otherwise available for future borrowings.

Our syndicated bank credit facility contains customary events of default. If an event of default occurs and is continuing, we might be required to repay all amounts then outstanding under the syndicated bank credit facility. Lenders holding more than 50% of the loans and commitments under the syndicated bank credit facility may elect to accelerate the maturity of loans upon the occurrence and during the continuation of an event of default.

Our syndicated bank credit facility contains a mandatory prepayment clause, triggered in the event that the proceeds of certain asset dispositions are not utilized as provided under the syndicated bank credit facility within 18 months of such disposition; insurance or condemnation proceeds are not utilized as provided under the syndicated bank credit facility within 360 days; or the proceeds from capital contributions or equity offerings are not utilized to acquire businesses or properties relating to radio, television and outdoor advertising within 360 days. In addition, if we incur certain additional indebtedness, then 100% of such proceeds must be used to reduce our outstanding loan balance; and if we have excess cash flow, as defined in our syndicated bank credit facility, in any year starting in 2006, then 75% of such excess cash flow must be used to reduce our outstanding loan balance.

Our syndicated bank credit facility contains certain financial covenants relating to maximum net debt ratio, senior debt ratio, maximum capital expenditures and fixed charge coverage ratio. The covenants become increasingly restrictive in the later years of the syndicated bank credit facility. Our syndicated bank credit facility also requires us to maintain our FCC licenses for our broadcast properties and contains restrictions on the incurrence of additional debt, the payment of dividends, the making of acquisitions and the sale of assets over a certain limit. Additionally, we entered into three interest rate swap agreements because our leverage exceeded certain limits.

We can draw on our revolving facility without prior approval for working capital needs and for acquisitions having an aggregate maximum consideration of \$25 million or less. Proposed acquisitions are conditioned upon our delivery to the agent bank of a covenant compliance certificate showing pro forma calculations assuming such acquisition had been consummated and revised revenue projections for the acquired properties. For acquisitions having an aggregate maximum consideration in excess of \$100 million, consent is required from lenders holding more than 50% of the loans and commitments under the syndicated bank credit facility.

## ***Debt and Equity Financing***

On May 9, 2002, we filed a shelf registration statement with the SEC to register up to \$500 million of equity and debt securities, which we may offer from time to time. That shelf registration statement has been declared effective by the SEC. We have not yet issued any securities under the shelf registration statement. We intend to use the proceeds of any issuance of securities under the shelf registration statement to fund acquisitions or capital expenditures, to reduce or refinance debt or other obligations, and for general corporate purposes.

We have also entered into an agreement with Univision under which we have agreed, at Univision's request, to sell in an underwritten public offering up to a specified number of shares of our Class A common stock

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previously registered with the SEC, and concurrently with the consummation of that public offering, to repurchase the same number of shares of our Class U common stock owned by Univision, for an amount equal to the gross proceeds of the offering minus underwriting discounts and commissions. Under this agreement, Univision has agreed to refrain from exercising any right to demand the registration of the sale of such common stock provided to it under an investor rights agreement, as amended, between Univision, us and the other stockholders named therein until a period of time after giving notice to us of its request to consummate a Sale Transaction.

In September 2005, we completed a tender offer for our \$225 million senior subordinated notes with a portion of the proceeds of a new \$650 million senior secured syndicated bank credit facility. See [Syndicated Bank Credit Facility](#) above.

### ***Broadcast Cash Flow and EBITDA as Adjusted***

Broadcast cash flow (as defined below) increased to \$109.2 million for the year ended December 31, 2005 from \$96.7 million for the year ended December 31, 2004, an increase of \$12.5 million, or 13%. As a percentage of net revenue, broadcast cash flow increased to 39% for the year ended December 31, 2005 from 37% for the year ended December 31, 2004. Broadcast cash flow increased to \$96.7 million for the year ended December 31, 2004 from \$80.9 million for the year ended December 31, 2003, an increase of \$15.8 million, or 20%. As a percentage of net revenue, broadcast cash flow increased to 37% for the year ended December 31, 2004 from 34% for the year ended December 31, 2003.

We currently anticipate that broadcast cash flow will continue to increase in future periods, both in absolute dollars and as a percentage of net revenue, as we believe that net revenue increases will continue to outpace increases in direct operating and selling, general and administrative expenses.

EBITDA as adjusted (as defined below) increased to \$92.4 million for the year ended December 31, 2005 from \$79.9 million for the year ended December 31, 2004, an increase of \$12.5 million, or 16%. As a percentage of net revenue, EBITDA as adjusted increased to 33% for the year ended December 31, 2005 from 31% for the year ended December 31, 2004. EBITDA as adjusted increased to \$79.9 million for the year ended December 31, 2004 from \$66.6 million for the year ended December 31, 2003, an increase of \$13.3 million, or 20%. As a percentage of net revenue, EBITDA as adjusted increased to 31% for the year ended December 31, 2004 from 28% for the year ended December 31, 2003.

We currently anticipate that EBITDA as adjusted will continue to increase in future periods, both in absolute dollars and as a percentage of net revenue, as we believe that net revenue increases will continue to outpace increases in direct operating, selling, general and administrative and corporate expenses.

Broadcast cash flow means operating income (loss) before corporate expenses, gain (loss) on sale of assets, depreciation and amortization and non-cash stock-based compensation. EBITDA as adjusted means broadcast cash flow less corporate expenses. We use the term EBITDA as adjusted because that measure does not include non-cash stock-based compensation and gain (loss) on sale of assets. We evaluate and project the liquidity and cash flows of our business using several measures, including broadcast cash flow and EBITDA as adjusted. We consider these measures as important indicators of liquidity relating to our operations, as they eliminate the effects of non-cash gain (loss) on sale of assets, non-cash depreciation and amortization and non-cash stock-based compensation awards. We use these measures to evaluate liquidity and cash flow improvement from year to year as they eliminate non-cash expense items. We believe that our investors should use these measures because they may provide a better comparability of our liquidity to that of our competitors.

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Our calculation of EBITDA as adjusted included herein is substantially similar to the measures used in the financial covenants included in our syndicated bank credit facility, where EBITDA as adjusted is referred to as consolidated adjusted EBITDA. Under our syndicated bank credit facility, our ratio of consolidated total debt minus cash, up to a maximum of \$20 million, to consolidated adjusted EBITDA may not exceed 7.5 to 1 on a pro

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forma basis for the prior full four quarters. The actual ratios of net indebtedness to consolidated adjusted EBITDA were as follows (in each case as of December 31): 2005, 5.3 to 1; 2004, 5.8 to 1; 2003, 5.4 to 1. We entered into our new syndicated bank credit facility in September 2005 so we were not subject to the same calculations and covenants in prior years. For consistency of presentation, however, the foregoing historical ratios assume that our current definitions had been applied for all periods.

While we and many in the financial community consider broadcast cash flow and EBITDA as adjusted to be important, they should be considered in addition to, but not as a substitute for or superior to, other measures of liquidity and financial performance prepared in accordance with accounting principles generally accepted in the United States of America, such as cash flows from operating activities, operating income and net income. In addition, our definitions of broadcast cash flow and EBITDA as adjusted differ from those of many companies reporting similarly named measures.

Broadcast cash flow and EBITDA as adjusted are non-GAAP measures. For a reconciliation of each of broadcast cash flow and EBITDA as adjusted to net income (loss), their most directly comparable GAAP financial measure, please see page 42.

### ***Cash Flow***

Net cash flow provided by operating activities decreased to \$35.9 million for the year ended December 31, 2005 from \$52.6 million for the year ended December 31, 2004. Net cash flow provided by operating activities increased to \$52.6 million for the year ended December 31, 2004 from \$40.5 million for the year ended December 31, 2003.

Net cash flow used in investing activities was \$40.9 million for the year ended December 31, 2005 compared to net cash flow provided by investing activities of \$0.8 million for the year ended December 31, 2004. During the year ended December 31, 2005, we spent \$39.8 million on net capital expenditures and acquisition of intangibles and \$1.1 million on deposits for acquisitions.

Net cash flow provided by financing activities was \$23.6 million for the year ended December 31, 2005 compared to net cash flow used in financing activities of \$26.3 million for the year ended December 31, 2004. During the year ended December 31, 2005, we made debt payments and paid related debt costs of \$477.7 million, received \$500 million from our new syndicated bank credit facility and received net proceeds of \$1.3 million from the exercise of stock options issued under our 2000 Omnibus Equity Incentive Plan and from the sale of shares issued under our 2001 Employee Stock Purchase Plan.

During 2006, we anticipate that our maintenance capital expenditures will be approximately \$13 million. In addition to our maintenance capital expenditures, we anticipate that our digital television capital expenditures will be approximately \$7 million. We anticipate paying for these capital expenditures out of net cash flow from operations.

As part of the mandated transition from analog to digital television, full-service television station owners may be required to stop broadcasting analog signals and to relinquish one of their paired analog-digital channels to the FCC at the end of 2006, if the market penetration of digital television receivers reaches certain congressionally-mandated levels by that time. We currently expect that the cost to complete construction of digital television facilities for all of our full-service television stations, which we are required to complete by July 1, 2006, will be approximately \$7 million. In addition, we are required to broadcast separate digital and analog signals throughout this transition period. We currently anticipate that the incremental costs of broadcasting in digital and analog, including additional rent and higher electricity expense, will be approximately

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\$1 million in 2006. We intend to finance the conversion to digital television out of net cash flow from operations.

The amount of our anticipated capital expenditures may change based on future changes in business plans, our financial condition and general economic conditions.



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We continually review, and are currently reviewing, opportunities to acquire additional television and radio stations, as well as other broadcast or media opportunities targeting the Hispanic market in the United States. We expect to finance any future acquisitions through funds generated from operations, borrowings under our syndicated bank credit facility and additional debt and equity financing. Any additional financing, if needed, might not be available to us on reasonable terms or at all. Any failure to raise capital when needed could seriously harm our business and our acquisition strategy. If additional funds are raised through the issuance of equity securities, the percentage of ownership of our existing stockholders will be reduced. Furthermore, these equity securities might have rights, preferences or privileges senior to those of our Class A common stock.

**Commitments and Contractual Obligations**

We have agreements with certain media research and ratings providers, expiring at various dates through December 2010, to provide television and radio audience measurement services. We lease facilities and broadcast equipment under various operating lease agreements with various terms and conditions, expiring at various dates through December 2025.

Our material contractual obligations at December 31, 2005 are as follows (in thousands):

<b>Contractual Obligations</b>	<b>Payments Due by Period</b>				
	<b>Total amounts committed</b>	<b>Less than 1 year</b>	<b>1-3 years</b>	<b>3-5 years</b>	<b>More than 5 years</b>
Syndicated bank credit facility and other borrowings	\$ 506,602	\$ 6,333	\$ 12,267	\$ 12,002	\$ 476,000
Media research and ratings providers (1)	27,728	9,356	9,271	9,101	
Operating leases and other material contractual obligations (1) (2)	72,685	11,272	16,801	13,012	31,600
<b>Total contractual obligations</b>	<b>\$ 607,015</b>	<b>\$ 26,961</b>	<b>\$ 38,339</b>	<b>\$ 34,115</b>	<b>\$ 507,600</b>

(1) Does not include month-to-month leases.

(2) Does not include estimated contractual obligations of interest expense. Please refer to Syndicated Bank Credit Facility above for interest terms.

We have also entered into employment agreements with certain of our key employees, including Walter F. Ulloa, Philip C. Wilkinson, Jeffery A. Liberman and John F. DeLorenzo. Our obligations under these agreements are not reflected in the table above.

Other than lease commitments, legal contingencies incurred in the normal course of business, employment contracts for key employees and the interest rate swap agreements described more fully in Item 7A below, we do not have any off-balance sheet financing arrangements or liabilities. We do not have any majority-owned subsidiaries or any interests in or relationships with any variable-interest entities that are not included in our consolidated financial statements.

*Other*

On April 4, 2001, our Board of Directors adopted the 2001 Employee Stock Purchase Plan. Our stockholders approved the Employee Stock Purchase Plan on May 10, 2001 at our 2001 Annual Meeting of Stockholders. Subject to adjustments in our capital structure, as defined in the Employee Stock Purchase Plan, the maximum number of shares of our Class A common stock that will be made available for sale under the Employee Stock Purchase Plan is 600,000, plus an annual increase of up to 600,000 shares on the first day of each of the ten calendar years beginning on January 1, 2002. All of our employees are eligible to participate in the Employee Stock Purchase Plan, provided that they have completed six months of continuous service as employees as of an offering date. There are two offering periods annually under the Employee Stock Purchase

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Plan, one which commences on February 15 and concludes on August 14, and the other which commences on August 15 and concludes on the following February 14. Since the inception of the Employee Stock Purchase Plan through December 31, 2005, 445,775 shares have been purchased.

### **Application of Critical Accounting Policies and Accounting Estimates**

Critical accounting policies are defined as those that are the most important to the accurate portrayal of our financial condition and results of operations. Critical accounting policies require management's subjective judgment and may produce materially different results under different assumptions and conditions. We have discussed the development and selection of these critical accounting policies with the Audit Committee of our Board of Directors, and the Audit Committee has reviewed and approved our related disclosure in this Management's Discussion and Analysis of Financial Condition and Results of Operations. The following are our critical accounting policies:

#### ***Goodwill and Indefinite Life Intangible Assets***

Effective January 1, 2002 we adopted the provisions of SFAS No. 142, Goodwill and Other Intangible Assets, and determined each of our operating segments to be a reporting unit. Upon adoption, we assigned all of our assets and liabilities to our reporting units and ceased amortizing goodwill and our indefinite life intangible assets. We believe that our broadcast licenses and long-term time brokerage agreements are indefinite life intangible assets.

We believe that the accounting estimates related to the fair value of our reporting units and indefinite life intangible assets and our estimates of the useful lives of our long-lived assets are critical accounting estimates because: (1) goodwill and other intangible assets are our most significant assets, and (2) the impact that recognizing an impairment would have on the assets reported on our balance sheet, as well as on our results of operations, could be material. Accordingly, the assumptions about future cash flows on the assets under evaluation are critical.

Goodwill and indefinite life intangible assets are tested annually for impairment or more frequently if events or changes in circumstances indicate that the assets might be impaired. In assessing the recoverability of goodwill and indefinite life intangible assets, we must make assumptions about the estimated future cash flows and other factors to determine the fair value of these assets.

Assumptions about future revenue and cash flows require significant judgment because of the current state of the economy and the fluctuation of actual revenue and the timing of expenses. We develop future revenue estimates based on projected ratings increases, planned timing of signal strength upgrades, planned timing of promotional events, customer commitments and available advertising time. Estimates of future cash flows assume that expenses will grow at rates consistent with historical rates. Alternatively, some stations under evaluation have had limited relevant cash flow history due to planned conversion of format or upgrade of station signal. The assumptions about cash flows after conversion reflect estimates of how these stations are expected to perform based on similar stations and markets and possible proceeds from the sale of the assets. If the expected cash flows are not realized, impairment losses may be recorded in the future.

For goodwill, the impairment evaluation includes a comparison of the carrying value of each reporting unit (including goodwill) to that reporting unit's fair value. If the reporting unit's estimated fair value exceeds the reporting unit's carrying value, no impairment of goodwill exists. If the fair value of the reporting unit does not exceed the unit's carrying value, then an additional analysis is performed to allocate the fair value of the reporting unit to all of the assets and liabilities of that unit as if that unit had been acquired in a business combination and the fair value of the

unit was the purchase price. If the excess of the fair value of the reporting unit over the fair value of the identifiable assets and liabilities is less than the carrying value of the unit's goodwill, an impairment charge is recorded for the difference.

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The impairment evaluation for indefinite life intangible assets is performed by a comparison of the asset's carrying value to the asset's fair value. When the carrying value exceeds fair value an impairment charge is recorded for the amount of the difference. An intangible asset is determined to have an indefinite useful life when there are no legal, regulatory, contractual, competitive, economic or any other factors that may limit the period over which the asset is expected to contribute directly or indirectly to our future cash flows. In addition, each reporting period, we evaluate the remaining useful life of an intangible asset that is not being amortized to determine whether events and circumstances continue to support an indefinite useful life. If an intangible asset that is not being amortized is determined to have a finite useful life, the asset will be amortized prospectively over the estimated remaining useful life and accounted for in the same manner as intangible assets subject to amortization.

### ***Long-Lived Assets, Including Intangibles Subject to Amortization***

Depreciation and amortization of our long-lived assets is provided using accelerated and straight-line methods over their estimated useful lives. Changes in circumstances, such as the passage of new laws or changes in regulations, technological advances, changes to our business model or changes in our capital strategy could result in the actual useful lives differing from initial estimates. In those cases where we determine that the useful life of a long-lived asset should be revised, we will depreciate the net book value in excess of the estimated residual value over its revised remaining useful life. Factors such as changes in the planned use of equipment, customer attrition, contractual amendments or mandated regulatory requirements could result in shortened useful lives.

Long-lived assets and asset groups are evaluated for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. The estimated future cash flows are based upon, among other things, assumptions about expected future operating performance and may differ from actual cash flows. Long-lived assets evaluated for impairment are grouped with other assets to the lowest level for which identifiable cash flows are largely independent of the cash flows of other groups of assets and liabilities. If the sum of the projected undiscounted cash flows (excluding interest) is less than the carrying value of the assets, the assets will be written down to the estimated fair value in the period in which the determination is made.

### ***Deferred Taxes***

Deferred taxes are provided on a liability method whereby deferred tax assets are recognized for deductible temporary differences and deferred liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. We have recorded a \$58 million tax benefit for net operating losses that are expected to offset future taxable income. Our net operating loss benefits will expire from 2011 to 2025. In order to realize the value of those assets, we would need to generate an aggregate of approximately \$166 million of taxable income prior to their expiration. We currently estimate that we will recognize adequate taxable income over the next five to ten years sufficient to realize the value of these assets. We estimate taxable income will be significant in 2006 as a result of our sale of radio assets in the San Francisco/San Jose market. Deferred tax assets are reduced by a valuation allowance when it is determined to be more likely than not that some portion or all of the deferred tax assets will not be realized. In evaluating the need for a valuation allowance, we consider future taxable income, resolution of tax uncertainties and prudent and feasible tax planning strategies. If we determine that we would not be able to realize all or part of our deferred tax assets in the future, an adjustment to the carrying value of the deferred tax assets would be charged to income in the period in which such determination was made.

### ***Revenue Recognition***

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Television and radio revenue related to the sale of advertising is recognized at the time of broadcast. Revenue for outdoor advertising space is recognized ratably over the term of the contract, which is typically less

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than 12 months. Revenue contracts with advertising agencies are recorded at an amount that is net of the commission retained by the agency. Revenue from contacts directly with the advertisers is recorded at gross. Cash payments received prior to services rendered result in deferred revenue, which is then recognized as revenue when the advertising time or space is actually provided.

### ***Allowance for Doubtful Accounts***

Our accounts receivable consist of a homogeneous pool of relatively small dollar amounts from a large number of customers. We evaluate the collectibility of our trade accounts receivable based on a number of factors. When we are aware of a specific customer's inability to meet its financial obligations to us, a specific reserve for bad debts is estimated and recorded which reduces the recognized receivable to the estimated amount we believe will ultimately be collected. In addition to specific customer identification of potential bad debts, bad debt charges are recorded based on our recent past loss history and an overall assessment of past due trade accounts receivable amounts outstanding.

### ***Derivative Instruments***

SFAS No. 133 requires us to recognize all of our derivative instruments as either assets or liabilities in our consolidated balance sheet at fair value. The accounting for changes in the fair value of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship, and further, on the type of hedging relationship. In September 2005, we entered into three interest rate swap agreements with a \$500 million aggregate notional amount, with quarterly reductions, that expire on October 1, 2010. As of December 31, 2005, these interest rate swap agreements were not designated for hedge accounting treatment under SFAS No. 133, and as a result, the increase in fair value is classified as a reduction of interest expense on our statements of operations. For the year ended December 31, 2005, we recognized a reduction of \$3.8 million in interest expense related to the increase in fair value of the interest rate swap agreements.

### ***Additional Information***

For additional information on our significant accounting policies, please see Note 2 to Notes to Consolidated Financial Statements.

### **Recently Issued Accounting Pronouncement**

In December 2004, the FASB issued SFAS No. 123R, which replaces SFAS No. 123, and supersedes APB No. 25, Accounting for Stock Issued to Employees. SFAS No. 123R requires that the measurement of all share-based payment transactions, including grants of employee stock options and stock purchased through an employee stock purchase plan, be recognized in the financial statements using a fair value-based method.

SFAS No. 123R was issued in December 2004 and will be effective for us in the first quarter of 2006. As a result of outstanding unvested options, we anticipate non-cash stock-based compensation of approximately \$1.6 million will be recorded in direct operating expense, selling, general and administrative expense and corporate expense as a result of our adoption of SFAS No. 123R in 2006. The impact of SFAS No. 123R on us in 2006 and beyond will depend upon various factors, including our future compensation strategy. The pro forma compensation costs

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presented in the table in Note 1 to our consolidated financial statements and in prior filings for us have been calculated using the Black-Scholes option pricing model and may not be indicative of the expense in future periods. The 2005 pro forma compensation cost includes the impact of accelerating the vesting of certain unvested options. In the prior years pro forma compensation costs we recorded forfeitures when occurred while under SFAS No. 123R, we will be required to estimate a forfeiture rate.



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### **Sensitivity of Critical Accounting Estimates**

We have critical accounting estimates that are sensitive to change. The most significant of those sensitive estimates relate to the impairment of intangible assets. Our television reporting unit fair value significantly exceeds its carrying value, but our impairment analysis for each of our radio and outdoor reporting units is sensitive to change as described below.

#### ***Radio***

We engaged an independent appraiser experienced in valuing radio broadcast properties to conduct an appraisal of the fair value of our radio reporting unit. The appraiser combined radio properties into market clusters and used two different discounted cash flow models for their valuation. In markets where we had mature stations with established cash flows, the model was based on our actual historical results and expected future cash flows. In markets where stations were not mature and did not have established cash flows, the model was based on the station's projected ability to serve its market based on its signal coverage of the market. Based on the assumptions and projections included in the appraiser's analysis, the appraiser concluded that our radio reporting unit's fair value exceeded its carrying value as of October 1, 2005.

Upon receipt of the appraisal, we interviewed representatives of the appraiser at length regarding their findings and the methodologies used in the appraisal, and concluded that their methodologies were among several acceptable methodologies for valuing radio broadcast properties and that the results suggested that no impairment should be recorded with respect to our radio reporting unit. However, if any of the estimates of future cash flows, discount rates or multiples used by the appraiser were to change in any future appraisal, it could affect our impairment analysis and cause us to record an expense for impairment.

#### ***Outdoor***

We engaged an independent appraiser experienced in valuing advertising properties to conduct an appraisal of the fair value of our outdoor reporting unit. The appraiser relied primarily on a discounted cash flow model for its valuation and confirmed their valuation with an analysis of comparable sales. As a result of that valuation we believed that the estimated fair value of the outdoor reporting unit was below its carrying value by \$45 million, suggesting potential impairment. Since we had an indicator of potential impairment, as required under SFAS No. 142 we allocated the fair value of the entire outdoor reporting unit among its components, which consist primarily of fixed assets, customer list and goodwill based on the appraisal. After allocating the estimated fair value to the components, the implied fair value of the goodwill component exceeded its carrying value, so we determined that there is no impairment of goodwill.

We then evaluated the fixed assets and customer list of our outdoor reporting unit in accordance with SFAS No. 144, as they are classified as long-lived assets. As required under SFAS No. 144, we compared the outdoor reporting unit's undiscounted cash flows to the carrying value of all of the reporting unit's assets. We determined that the sum of its projected undiscounted cash flows, including the estimated value of our billboards, exceeded the carrying value of the reporting unit's assets, resulting in the recovery of its value and no impairment of the long-lived assets.

In the calculation of the estimated fair value of our outdoor reporting unit, we used a combination of valuation techniques that rely on various assumptions such as estimated discounted future cash flows and multiples of revenue and earnings before interest, taxes, depreciation and amortization. Our estimates of future cash flows assume that we will significantly increase our outdoor revenues as compared with our outdoor

expenses, and that our billboards will also increase in value. If those estimates of future cash flows, discount rates or multiples were to change, it could affect our impairment analysis and cause us to record an expense for impairment.

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### **Impact of Inflation**

We believe that inflation has not had a material impact on our results of operations for each of our fiscal years in the three-year period ended December 31, 2005. However, there can be no assurance that future inflation would not have an adverse impact on our operating results and financial condition.

### **Off-Balance Sheet Arrangements**

We have entered into three interest rate swap agreements covering an aggregate of \$500 million of the outstanding balance under our syndicated bank credit facility, described more fully in Item 7A below. We have a participation agreement with UPN that grants UPN a 20% interest in the appreciation of XUPN-TV above \$35 million and an affiliation agreement with Telemundo that grants Telemundo a 20% interest in the appreciation of XHAS-TV above \$31 million, plus capital expenditures and certain other adjustments, upon certain liquidity events as defined in the agreements. We do not have any majority-owned subsidiaries or any interests in, or relationships with, any material variable-interest entities that are not included in the consolidated financial statements. Except for the items discussed above, we do not have any off-balance sheet financing arrangements or liabilities other than lease commitments, legal contingencies incurred in the normal course of business and employment contracts for key employees.

The carrying amount of our interest rate swap agreements are recorded at fair market value and any changes to the value are recorded as an increase or decrease in interest expense. The fair market value of each interest rate swap agreement is determined by estimating the future discounted cash flows of any future payments that may be made under such agreement.

We have converted our variable rate term loan into a fixed rate obligation at December 31, 2005. However, we expect that our term loan amounts will exceed the notional amounts of the interest rate swap agreements. If principal payments are made in accordance with their contractual terms, a 2% increase in the variable interest rate of our syndicated bank credit facility would be expected to increase interest expense on our term loan facility by approximately \$0.5 million. If the future interest yield curve decreases the fair value of the interest rate swap agreements will decrease and interest expense will increase. If the future interest yield curve increases the fair value of the interest rate swap agreements will increase and interest expense will decrease.

## **ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

### **General**

Market risk represents the potential loss that may impact our financial position, results of operations or cash flows due to adverse changes in the financial markets. We are exposed to market risk from changes in the base rates on our variable rate debt. Under our syndicated bank credit facility, if we exceed certain leverage ratios we are required to enter into derivative financial instrument transactions, such as swaps or interest rate caps, in order to manage or reduce our exposure to risk from changes in interest rates. Under no circumstances do we enter into derivatives or other financial instrument transactions for speculative purposes.

## Interest Rates

Our term loan bears interest at LIBOR plus a margin of 1.50%, for a total interest rate of 6.03% at December 31, 2005. Our revolving facility bears interest at LIBOR plus a margin ranging from 1% to 2% based on our leverage. As of December 31, 2005, we had \$500 million of bank debt outstanding. Our syndicated bank credit facility requires us to enter into interest rate agreements if our leverage exceeds certain limits as defined in our credit agreement.

In September 2005, we entered into three interest rate swap agreements with a \$500 million aggregate notional amount, with quarterly reductions, that expire on October 1, 2010. These interest rate swap agreements convert a portion of our variable rate term loan into a fixed rate obligation of 5.96%, which includes the margin of 1.50%. We expect that as the notional amount of our interest rate swap agreements decline, our term loan

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amounts will exceed the notional amounts of our interest rate swap agreements. The excess loan amount outstanding over the notional amount of the interest rate swap agreements will incur interest at LIBOR plus 1.50%. As of December 31, 2005, these interest rate swap agreements were not designated for hedge accounting treatment under SFAS No. 133, and as a result, changes in their fair values are reflected currently in earnings. At December 31, 2005, the fair value of the interest rate swap agreements was \$3.8 million and is classified as other assets on our balance sheet. For the year ended December 31, 2005, we recognized a reduction of \$3.8 million in interest expense related to the increase in fair value of the interest rate swap agreements.

We have converted our variable rate term loan into a fixed rate obligation at December 31, 2005. However, we expect that our term loan amounts will exceed the notional amounts of the interest rate swap agreements. If principal payments are made in accordance with their contractual terms, a 2% increase in the variable interest rate of our syndicated bank credit facility would be expected to increase interest expense on our term loan facility by approximately \$0.5 million. If the future interest yield curve decreases the fair value of the interest rate swap agreements will decrease and interest expense will increase. If the future interest yield curve increases the fair value of the interest rate swap agreements will increase and interest expense will decrease.

## **ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

See pages F-1 through F-31.

## **ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.

## **ITEM 9A. CONTROLS AND PROCEDURES**

### **Evaluation of Disclosure Controls and Procedures**

We conducted an evaluation, under the supervision and with the participation of management, including our chief executive officer and chief financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this annual report.

Based on this evaluation, our chief executive officer and chief financial officer concluded that as of the evaluation date our disclosure controls and procedures were adequate and designed to ensure that the information relating to our company, including our consolidated subsidiaries, required to be disclosed in our SEC reports is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate to allow for timely decisions regarding required disclosure.

**Management's Report on Internal Control Over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Under the supervision and with the participation of management, including our chief executive officer and chief financial officer, we conducted an evaluation of the effectiveness of our internal controls over financial reporting based on the framework in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation, management has concluded that our internal control over financial reporting was effective as of December 31, 2005.

Additionally, there have not been any changes in our internal control over financial reporting during the quarter ended December 31, 2005 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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Our independent auditors, McGladrey & Pullen, LLP, who have audited and reported on our financial statements, issued an attestation report regarding our assessment of our internal controls over financial reporting. McGladrey's report is included in this annual report below.

### **Inherent Limitations on Effectiveness of Controls**

Our management, including our chief executive officer and chief financial officer, does not expect that our disclosure controls or our internal control over financial reporting will prevent or detect all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

### **Report of Independent Registered Public Accounting Firm**

To the Board of Directors

Entravision Communications Corporation

Santa Monica, California

We have audited management's assessment, included in the accompanying Management's Report on Internal Control over Financial Reporting, that Entravision Communications Corporation (the Company) maintained effective internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control - Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Entravision Communications Corporation's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.



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In our opinion, management's assessment that Entravision Communications Corporation maintained effective internal control over financial reporting as of December 31, 2005 is fairly stated, in all material respects, based on criteria established in Internal Control - Integrated Framework, issued by Committee of Sponsoring Organizations of the Treadway Commission (COSO). Also, in our opinion, Entravision Communications Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control - Integrated Framework, issued by Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Entravision Communications Corporation and subsidiaries as of December 31, 2005 and 2004, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2005, and our report dated March 14, 2006 expressed an unqualified opinion.

Pasadena, California  
March 14, 2006

**ITEM 9B. OTHER INFORMATION**

Not applicable.

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**PART III**

**ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT**

Information regarding our directors and matters pertaining to our corporate governance policies and procedures are set forth in Proposal 1 Election of Directors under the captions Biographical Information Regarding Directors and Corporate Governance in our definitive proxy statement for our 2006 Annual Meeting of Stockholders scheduled to be held on May 25, 2006. Such information is incorporated herein by reference. Information regarding compliance by our directors and executive officers and owners of more than ten percent of our Class A common stock with the reporting requirements of Section 16(a) of the Exchange Act is set forth in the proxy statement under the caption Section 16(a) Beneficial Ownership Reporting Compliance. Such information is incorporated herein by reference.

**ITEM 11. EXECUTIVE COMPENSATION**

Information regarding the compensation of our executive officers and directors is set forth in Proposal 1 Election of Directors under the caption Director Compensation and under the caption Summary of Cash and Certain Other Compensation in the proxy statement. Such information is incorporated herein by reference.

**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

Information regarding ownership of our common stock by certain persons is set forth under the caption Security Ownership of Certain Beneficial Owners and Management and under the caption Summary of Cash and Certain Other Compensation in the proxy statement. Such information is incorporated herein by reference.

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

Information regarding relationships or transactions between our affiliates and us is set forth under the caption Certain Relationships and Related Transactions in the proxy statement. Such information is incorporated herein by reference.

**ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

Information regarding fees paid to and services performed by our independent accountants is set forth in Proposal 2 Ratification of Appointment of Independent Auditor under the caption Audit and Other Fees in the proxy statement. Such information is incorporated herein by reference.



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**PART IV**

**ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

(a) *Documents filed as part of this report:*

1. Financial Statements

The consolidated financial statements contained herein are as listed on the Index to Consolidated Financial Statements on page F-1 of this report.

2. Financial Statement Schedules

Not applicable.

3. Exhibits

See Exhibit Index.

(b) *Exhibits:*

The following exhibits are attached hereto and incorporated herein by reference.

<b>Exhibit</b>	
<b>Number</b>	<b>Exhibit Description</b>
2.1(1)	Asset Purchase Agreement dated as of July 25, 2005 by and among Entravision Holdings, LLC, Entravision Communications Corporation, Univision Radio License Corporation and Univision Communications Inc.
3.1(2)	Second Amended and Restated Certificate of Incorporation
3.2*	Third Amended and Restated Bylaws, as adopted on December 9, 2005
10.1(3)	2000 Omnibus Equity Incentive Plan

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- 10.2(4) Form of Notice of Stock Option Grant and Stock Option Agreement under the 2000 Omnibus Equity Incentive Plan
- 10.3(3) Form of Voting Agreement by and among Walter F. Ulloa, Philip C. Wilkinson, Paul A. Zevnik and the registrant
- 10.4(1) Employment Agreement effective as of August 1, 2005 by and between the registrant and Walter F. Ulloa
- 10.5(1) Employment Agreement effective as of August 1, 2005 by and between the registrant and Philip C. Wilkinson
- 10.6(5) Employment Agreement effective as of January 1, 2004 by and between the registrant and Jeffery A. Liberman
- 10.7(6) Form of Indemnification Agreement for officers and directors of the registrant
- 10.8(3) Form of Investors Rights Agreement by and among the registrant and certain of its stockholders
- 10.9(1) Amendment to Investor Rights Agreement dated as of September 9, 2005 by and between Entravision Communications Corporation and Univision Communications Inc.
- 10.10(1) Letter Agreement regarding registrations rights of Univision dated as of September 9, 2005 by and between Entravision Communications Corporation and Univision Communications Inc.
- 10.11(3) Office Lease dated August 19, 1999 by and between Water Garden Company L.L.C. and Entravision Communications Company, L.L.C.
- 10.12(7) First Amendment to Lease and Agreement Re: Sixth Floor Additional Space dated as of March 15, 2001 by and between Water Garden Company L.L.C., Entravision Communications Company, L.L.C. and the registrant

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<b>Exhibit</b>	
<b>Number</b>	<b>Exhibit Description</b>
10.13*	Second Amendment to Lease dated as of October 5, 2005 by and between Water Garden Company L.L.C. and the registrant
10.14(8)	Limited Liability Company Agreement of Lotus/Entravision Reps LLC dated as of August 10, 2001
10.15*	Executive Employment Agreement effective as of December 1, 2005 by and between the registrant and John F. DeLorenzo
10.16(9)	Master Network Affiliation Agreement, dated as of August 14, 2002, by and between Entravision Communications Corporation and Univision Network Limited Partnership
10.17(9)	Master Network Affiliation Agreement, dated as of March 17, 2004, by and between Entravision Communications Corporation and TeleFutura
10.18(2)	2004 Equity Incentive Plan
10.19(4)	Form of Stock Option Award under the 2004 Equity Incentive Plan
10.20(4)	Letter Agreement dated February 14, 2006 regarding terms of employment of Christopher T. Young
10.21(4)	Summary of Non-Employee Director Compensation
10.22(2)	Share Repurchase Agreement, dated as of June 25, 2004, by and between Entravision Communications Corporation and TSG Capital Fund III, L.P.
10.23(1)	Credit and Guaranty Agreement dated as of September 29, 2005 among Entravision Communications Corporation, certain subsidiaries of Entravision Communications Corporation, as Guarantors, Goldman Sachs Credit Partners L.P., Union Bank of California, N.A., Citigroup Global Markets Inc., Wachovia Bank, National Association, Harris Nesbitt, National City Bank and the lenders party thereto
21.1*	Subsidiaries of the registrant
23.1*	Consent of Independent Accountants
24.1*	Power of Attorney (included after signatures hereto)
31.1*	Certification by the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 and Rules 13a-14 and 15d-14 under the Securities Exchange Act of 1934
31.2*	Certification by the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 and Rules 13a-14 and 15d-14 under the Securities Exchange Act of 1934
32*	Certification of Periodic Financial Report by the Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

- \* Filed herewith.
- Management contract or compensatory plan, contract or arrangement.
- (1) Incorporated by reference from our Quarterly Report on Form 10-Q for the quarter ended September 30, 2005, filed with the SEC on November 9, 2005.
  - (2) Incorporated by reference from our Quarterly Report on Form 10-Q for the quarter ended June 30, 2004, filed with the SEC on August 9, 2004.
  - (3) Incorporated by reference from our Registration Statement on Form S-1, No. 333-35336, filed with the SEC on April 21, 2000, as amended by Amendment No. 1 thereto, filed with the SEC on June 14, 2000, Amendment No. 2 thereto, filed with the SEC on July 10, 2000, Amendment No. 3 thereto, filed with the SEC on July 11, 2000 and Amendment No. 4 thereto, filed with the SEC on July 26, 2000.
  - (4) Incorporated by reference from our Annual Report on Form 10-K for the year ended December 31, 2004, filed with the SEC on March 15, 2005.
  - (5) Incorporated by reference from our Annual Report on Form 10-K for the year ended December 31, 2003, filed with the SEC on March 15, 2004.

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- (6) Incorporated by reference from our Quarterly Report on Form 10-Q for the quarter ended June 30, 2000, filed with the SEC on September 15, 2000.
- (7) Incorporated by reference from our Annual Report on Form 10-K for the year ended December 31, 2000, filed with the SEC on March 28, 2001.
- (8) Incorporated by reference from our Registration Statement on Form S-3, No. 333-81652, filed with the SEC on January 30, 2002, as amended by Post-Effective Amendment No. 1 thereto, filed with the SEC on February 25, 2002.
- (9) Incorporated by reference from our Quarterly Report on Form 10-Q for the quarter ended March 31, 2004, filed with the SEC on May 10, 2004.

(c) *Financial Statement Schedules:*

Not applicable.

**Table of Contents****SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ENTRAVISION COMMUNICATIONS CORPORATION

By:                     /s/ WALTER F. ULLOA

**Walter F. Ulloa**

**Chairman and Chief Executive Officer**

Date: March 16, 2006

**POWER OF ATTORNEY**

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints, jointly and severally, Walter F. Ulloa and John F. DeLorenzo, and each of them, as his or her true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for him or her and in his or her name, place and stead, in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-K, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith, as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their or his or her substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934 this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>                    /s/ WALTER F. ULLOA</u>	Chairman, Chief Executive Officer (principal executive officer) and Director	March 16, 2006
<b>Walter F. Ulloa</b>		
<u>                    /s/ PHILIP C. WILKINSON</u>	President, Chief Operating Officer and Director	March 16, 2006
<b>Philip C. Wilkinson</b>		
<u>                    /s/ JOHN F. DeLORENZO</u>	Executive Vice President, Treasurer and Chief Financial Officer (principal financial officer and principal accounting officer)	March 16, 2006
<b>John F. DeLorenzo</b>		
<u>                    /s/ PAUL A. ZEVNIK</u>	Director	March 16, 2006



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**Paul A. Zevnik**

/s/ DARRYL B. THOMPSON

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Director

March 16, 2006

**Darryl B. Thompson**

/s/ MICHAEL S. ROSEN

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Director

March 16, 2006

**Michael S. Rosen**

/s/ ESTEBAN E. TORRES

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Director

March 16, 2006

**Esteban E. Torres**

/s/ JESSE CASSO, JR.

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Director

March 16, 2006

**Jesse Casso, Jr.**

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**ENTRAVISION COMMUNICATIONS CORPORATION**

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