

SINCLAIR BROADCAST GROUP INC  
Form 10-Q  
May 09, 2012  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended March 31, 2012

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

COMMISSION FILE NUMBER: 000-26076

# SINCLAIR BROADCAST GROUP, INC.

(Exact name of Registrant as specified in its charter)

**Maryland**  
(State or other jurisdiction of  
Incorporation or organization)

**52-1494660**  
(I.R.S. Employer Identification No.)

**10706 Beaver Dam Road**

**Hunt Valley, Maryland 21030**

(Address of principal executive office, zip code)

**(410) 568-1500**

(Registrant's telephone number, including area code)

**None**

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such file). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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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

Indicate the number of share outstanding of each of the issuer's classes of common stock as of the latest practicable date.

| <b>Title of each class</b> | <b>Number of shares outstanding as of<br/>May 3, 2012</b> |
|----------------------------|---|
| Class A Common Stock       | 52,255,511  |
| Class B Common Stock       | 28,933,859  |

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SINCLAIR BROADCAST GROUP, INC.

FORM 10-Q

FOR THE QUARTER ENDED MARCH 31, 2012

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Table of Contents**PART 1. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****SINCLAIR BROADCAST GROUP, INC.****CONSOLIDATED BALANCE SHEETS****(In thousands, except share and per share data) (Unaudited)**

|  | As of March 31,<br>2012 | As of December 31,<br>2011 |
|--|-------------------------|----------------------------|
| <b>ASSETS</b>  |                         |                            |
| <b>CURRENT ASSETS:</b>   |                         |                            |
| Cash and cash equivalents  | \$ 26,802               | \$ 12,967                  |
| Accounts receivable, net of allowance for doubtful accounts of \$2,805 and \$3,008, respectively | 136,242                 | 132,915                    |
| Affiliate receivable   | 835                     | 252                        |
| Income taxes receivable  |                         | 225                        |
| Current portion of program contract costs  | 32,452                  | 38,906                     |
| Prepaid expenses and other current assets  | 18,757                  | 17,274                     |
| Deferred barter costs  | 2,661                   | 2,238                      |
| Deferred tax assets  | 4,515                   | 4,940                      |
| Total current assets   | 222,264                 | 209,717                    |
| PROGRAM CONTRACT COSTS, less current portion   | 13,471                  | 15,584                     |
| PROPERTY AND EQUIPMENT, net  | 314,434                 | 281,521                    |
| RESTRICTED CASH  | 38,729                  | 58,726                     |
| GOODWILL   | 728,306                 | 660,117                    |
| BROADCAST LICENSES   | 58,142                  | 47,002                     |
| DEFINITE-LIVED INTANGIBLE ASSETS, net  | 266,695                 | 175,341                    |
| OTHER ASSETS   | 129,204                 | 123,409                    |
| Total assets (a)   | \$ 1,771,245            | \$ 1,571,417               |
| <b>LIABILITIES AND EQUITY (DEFICIT)</b>  |                         |                            |
| <b>CURRENT LIABILITIES:</b>  |                         |                            |
| Accounts payable   | \$ 4,941                | \$ 8,872                   |
| Accrued liabilities  | 101,739                 | 79,698                     |
| Income taxes payable   | 10,016                  |                            |
| Current portion of notes payable, capital leases and commercial bank financing                   | 36,237                  | 38,195                     |
| Current portion of notes and capital leases payable to affiliates                                | 3,105                   | 3,014                      |
| Current portion of program contracts payable   | 59,713                  | 63,825                     |
| Deferred barter revenues   | 2,652                   | 1,978                      |
| Total current liabilities  | 218,403                 | 195,582                    |
| <b>LONG-TERM LIABILITIES:</b>  |                         |                            |
| Notes payable, capital leases and commercial bank financing, less current portion                | 1,312,127               | 1,148,271                  |
| Notes payable and capital leases to affiliates, less current portion                             | 15,729                  | 16,545                     |
| Program contracts payable, less current portion  | 23,753                  | 27,625                     |
| Deferred tax liabilities   | 241,620                 | 247,552                    |
| Other long-term liabilities  | 46,824                  | 47,204                     |
| Total liabilities (a)  | 1,858,456               | 1,682,779                  |
| <b>COMMITMENTS AND CONTINGENCIES (See Note 3)</b>  |                         |                            |
| <b>EQUITY (DEFICIT):</b>   |                         |                            |

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| SINCLAIR BROADCAST GROUP SHAREHOLDERS EQUITY (DEFICIT):  |    |           |              |
|--|----|-----------|--------------|
| Class A Common Stock, \$.01 par value, 500,000,000 shares authorized, 52,239,805 and 52,022,086 shares issued and outstanding, respectively  |    | 522       | 520          |
| Class B Common Stock, \$.01 par value, 140,000,000 shares authorized, 28,933,859 and 28,933,859 shares issued and outstanding, respectively, convertible into Class A Common Stock |    | 289       | 289          |
| Additional paid-in capital   |    | 620,855   | 617,375      |
| Accumulated deficit  |    | (714,740) | (734,511)    |
| Accumulated other comprehensive loss   |    | (4,744)   | (4,848)      |
| Total Sinclair Broadcast Group shareholders deficit  |    | (97,818)  | (121,175)    |
| Noncontrolling interests   |    | 10,607    | 9,813        |
| Total deficit  |    | (87,211)  | (111,362)    |
| Total liabilities and equity (deficit)   | \$ | 1,771,245 | \$ 1,571,417 |

The accompanying notes are an integral part of these unaudited consolidated financial statements.

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(a) Our consolidated total assets as of March 31, 2012 and December 31, 2011 include total assets of variable interest entities (VIEs) of \$44.0 million and \$33.5 million, respectively, which can only be used to settle the obligations of the VIEs. Our consolidated total liabilities as of March 31, 2012 and December 31, 2011 include total liabilities of the VIEs of \$13.5 million and \$14.4 million, respectively, for which the creditors of the VIEs have no recourse to us. See *Note 1. Summary of Significant Accounting Policies*.

Table of Contents**SINCLAIR BROADCAST GROUP, INC.****CONSOLIDATED STATEMENTS OF OPERATIONS****(In thousands, except per share data) (Unaudited)**

|  | <b>Three Months Ended March 31,</b> |                  |
|--|-------------------------------------|------------------|
|  | <b>2012</b>                         | <b>2011</b>      |
| <b>REVENUES:</b>   |                                     |                  |
| Station broadcast revenues, net of agency commissions  | \$ 192,204                          | \$ 155,961       |
| Revenues realized from station barter arrangements   | 17,684                              | 17,222           |
| Other operating divisions revenues   | 13,948                              | 9,426            |
| Total revenues   | 223,836                             | 182,609          |
| <b>OPERATING EXPENSES:</b>   |                                     |                  |
| Station production expenses  | 60,203                              | 42,345           |
| Station selling, general and administrative expenses   | 36,129                              | 30,562           |
| Expenses recognized from station barter arrangements   | 16,257                              | 15,727           |
| Amortization of program contract costs and net realizable value adjustments                      | 14,280                              | 12,618           |
| Other operating divisions expenses   | 12,290                              | 7,963            |
| Depreciation of property and equipment   | 9,489                               | 8,060            |
| Corporate general and administrative expenses  | 9,367                               | 8,664            |
| Amortization of definite-lived intangible assets   | 5,899                               | 4,796            |
| Impairment of goodwill, intangible and other assets  |                                     | 398              |
| Total operating expenses   | 163,914                             | 131,133          |
| Operating income   | 59,922                              | 51,476           |
| <b>OTHER INCOME (EXPENSE):</b>   |                                     |                  |
| Interest expense and amortization of debt discount and deferred financing costs                  | (27,387)                            | (29,167)         |
| Loss from extinguishment of debt   | (335)                               | (924)            |
| Income from equity and cost method investments   | 1,276                               | 11               |
| Gain on insurance settlement   | 19                                  | 1,723            |
| Other income, net  | 452                                 | 365              |
| Total other expense  | (25,975)                            | (27,992)         |
| Income from continuing operations before income taxes  | 33,947                              | 23,484           |
| <b>INCOME TAX PROVISION</b>  | <b>(4,806)</b>                      | <b>(8,250)</b>   |
| Income from continuing operations  | 29,141                              | 15,234           |
| <b>DISCONTINUED OPERATIONS:</b>  |                                     |                  |
| Loss from discontinued operations, includes income tax provision of \$67 and \$107, respectively | (67)                                | (107)            |
| <b>NET INCOME</b>  | <b>29,074</b>                       | <b>15,127</b>    |
| Net loss attributable to the noncontrolling interests  | 285                                 | 152              |
| <b>NET INCOME ATTRIBUTABLE TO SINCLAIR BROADCAST GROUP</b>                                       | <b>\$ 29,359</b>                    | <b>\$ 15,279</b> |
| Dividends declared per share   | \$ 0.12                             | \$ 0.12          |
| <b>BASIC AND DILUTED EARNINGS PER COMMON SHARE ATTRIBUTABLE TO SINCLAIR BROADCAST GROUP:</b>     |                                     |                  |
| Earnings per share from continuing operations  | \$ 0.36                             | \$ 0.19          |
| Earnings per share   | \$ 0.36                             | \$ 0.19          |
| Weighted average common shares outstanding   | 80,852                              | 80,367           |
| Weighted average common and common equivalent shares outstanding                                 | 81,127                              | 80,690           |
| <b>AMOUNTS ATTRIBUTABLE TO SINCLAIR BROADCAST GROUP COMMON SHAREHOLDERS:</b>                     |                                     |                  |
| Income from continuing operations, net of tax  | \$ 29,426                           | \$ 15,386        |
| Loss from discontinued operations, net of tax  | (67)                                | (107)            |



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|            |    |        |    |        |
|------------|----|--------|----|--------|
| Net income | \$ | 29,359 | \$ | 15,279 |
|------------|----|--------|----|--------|

The accompanying notes are an integral part of these unaudited consolidated financial statements.

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**SINCLAIR BROADCAST GROUP, INC.**

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

**(In thousands) (Unaudited)**

|  |    | <b>Three months ended</b> |             |
|--|----|---------------------------|-------------|
|  |    | <b>March 31,</b>          |             |
|  |    | <b>2012</b>               | <b>2011</b> |
| Net income   | \$ | 29,074                    | \$ 15,127   |
| Amortization of net periodic pension benefit costs, net of taxes |    | 104                       | 41          |
| Comprehensive income   |    | 29,178                    | 15,168      |
| Comprehensive loss attributable to the noncontrolling interests  |    | 285                       | 152         |
| Comprehensive income attributable to Sinclair Broadcast Group    | \$ | 29,463                    | \$ 15,320   |

The accompanying notes are an integral part of these unaudited consolidated financial statements.

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**SINCLAIR BROADCAST GROUP, INC.**  
**CONSOLIDATED STATEMENT OF EQUITY (DEFICIT)**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2012**  
(In thousands, except per share data) (Unaudited)

|   | Sinclair Broadcast Group Shareholders |                                   |                                   |                                   |                                  | Accumulated<br>Deficit | Accumulated<br>Other<br>Comprehensive<br>Loss | Noncontrolling<br>Interests | Total Equity<br>(Deficit) |
|---|---------------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|----------------------------------|------------------------|---|-----------------------------|---------------------------|
|   | Class A<br>Common Stock<br>Shares     | Class A<br>Common Stock<br>Values | Class B<br>Common Stock<br>Shares | Class B<br>Common Stock<br>Values | Additional<br>Paid-In<br>Capital |                        |   |                             |                           |
| BALANCE,<br>December 31, 2011   | 52,022,086                            | \$ 520                            | 28,933,859                        | \$ 289                            | \$ 617,375                       | \$ (734,511)           | \$ (4,848)                                    | \$ 9,813                    | \$ (111,362)              |
| Dividends declared on<br>Class A and Class B<br>Common Stock              |                                       |                                   |                                   |                                   |                                  | (9,588)                |   |                             | (9,588)                   |
| Class A Common<br>Stock issued pursuant<br>to employee benefit<br>plans   | 217,719                               | 2                                 |                                   |                                   | 3,289                            |                        |   |                             | 3,291                     |
| Tax benefit on share<br>based awards                                      |                                       |                                   |                                   |                                   | 191                              |                        |   |                             | 191                       |
| Distributions to<br>noncontrolling<br>interests                           |                                       |                                   |                                   |                                   |                                  |                        |   | (88)                        | (88)                      |
| Issuance of subsidiary<br>share awards                                    |                                       |                                   |                                   |                                   |                                  |                        |   | 392                         | 392                       |
| Consolidation of<br>variable interest entity                              |                                       |                                   |                                   |                                   |                                  |                        |   | 775                         | 775                       |
| Amortization of net<br>periodic pension<br>benefit costs, net of<br>taxes |                                       |                                   |                                   |                                   |                                  |                        | 104   |                             | 104                       |
| Net income  |                                       |                                   |                                   |                                   |                                  | 29,359                 |   | (285)                       | 29,074                    |
| BALANCE, March<br>31, 2012  | 52,239,805                            | \$ 522                            | 28,933,859                        | \$ 289                            | \$ 620,855                       | \$ (714,740)           | \$ (4,744)                                    | \$ 10,607                   | \$ (87,211)               |

The accompanying notes are an integral part of these unaudited consolidated financial statements.

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|   | <b>Three Months Ended March 31,</b> |                |
|---|-------------------------------------|----------------|
|   | <b>2012</b>                         | <b>2011</b>    |
| <b>CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES:</b>  |                                     |                |
| Net income  | \$ 29,074                           | \$ 15,127      |
| Adjustments to reconcile net income to net cash flows from operating activities:  |                                     |                |
| Depreciation of property and equipment  | 9,630                               | 8,125          |
| Recognition of deferred revenue   | (4,788)                             | (3,728)        |
| Impairment of goodwill, intangible and other assets   |                                     | 398            |
| Amortization of definite-lived intangible and other assets  | 5,899                               | 4,797          |
| Amortization of program contract costs and net realizable value adjustments   | 14,280                              | 12,618         |
| Deferred tax (benefit) provision  | (5,984)                             | 5,918          |
| Change in assets and liabilities, net of acquisitions:  |                                     |                |
| Decrease in accounts receivable, net  | 8,370                               | 7,579          |
| Decrease in income taxes receivable   | 225                                 |                |
| Increase in prepaid expenses and other current assets   | (9,153)                             | (139)          |
| Decrease (increase) in other assets   | 395                                 | (531)          |
| Increase in accounts payable and accrued liabilities  | 21,135                              | 17,358         |
| Increase in income taxes payable  | 10,016                              | 2,218          |
| (Decrease) increase in other long-term liabilities  | (88)                                | 40             |
| Payments on program contracts payable   | (16,620)                            | (18,771)       |
| Other, net  | 5,092                               | 3,948          |
| Net cash flows from operating activities  | 67,483                              | 54,957         |
| <b>CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES:</b>  |                                     |                |
| Acquisition of property and equipment   | (6,736)                             | (6,085)        |
| Payments for acquisitions of television stations  | (205,622)                           |                |
| Purchase of alarm monitoring contracts  | (3,035)                             | (1,755)        |
| Decrease in restricted cash   | 20,000                              | 5,058          |
| Distributions from equity and cost method investees   |                                     | 832            |
| Investments in equity and cost method investees   | (5,503)                             | (8,064)        |
| Proceeds from the sale of assets  |                                     | 26             |
| Proceeds from insurance settlement  | 19                                  | 1,736          |
| Loans to affiliates   | (500)                               | (61)           |
| Proceeds from loans to affiliates   | 417                                 | 89             |
| Net cash flows used in investing activities   | (200,960)                           | (8,224)        |
| <b>CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES:</b>  |                                     |                |
| Proceeds from notes payable, commercial bank financing and capital leases   | 184,482                             | 128,333        |
| Repayments of notes payable, commercial bank financing and capital leases   | (23,529)                            | (61,714)       |
| Proceeds from exercise of stock options, including excess tax benefits of share based payments of \$0.2 million and \$0.6 million, respectively | 279                                 | 1,737          |
| Dividends paid on Class A and Class B Common Stock  | (9,588)                             | (9,591)        |
| Payments for deferred financing costs   | (3,519)                             | (4,282)        |
| Proceeds from Class A Common Stock sold by variable interest entity   |                                     | 1,808          |
| Noncontrolling interests distributions  | (88)                                | (39)           |
| Repayments of notes and capital leases to affiliates  | (725)                               | (852)          |
| Net cash flows from financing activities  | 147,312                             | 55,400         |
| <b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>  | <b>13,835</b>                       | <b>102,133</b> |
| CASH AND CASH EQUIVALENTS, beginning of period  | 12,967                              | 21,974         |
| CASH AND CASH EQUIVALENTS, end of period  | \$ 26,802                           | \$ 124,107     |

The accompanying notes are an integral part of these unaudited consolidated financial statements.

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**SINCLAIR BROADCAST GROUP, INC.**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

*Principles of Consolidation*

The consolidated financial statements include our accounts and those of our wholly-owned and majority-owned subsidiaries and VIEs for which we are the primary beneficiary. Noncontrolling interests represents a minority owner's proportionate share of the equity in certain of our consolidated entities. All intercompany transactions and account balances have been eliminated in consolidation.

*Interim Financial Statements*

The consolidated financial statements for the three months ended March 31, 2012 and 2011 are unaudited. In the opinion of management, such financial statements have been presented on the same basis as the audited consolidated financial statements and include all adjustments, consisting only of normal recurring adjustments necessary for a fair statement of the consolidated balance sheets, consolidated statements of operations, consolidated statements of comprehensive income and consolidated statements of cash flows for these periods as adjusted for the adoption of recent accounting pronouncements discussed below.

As permitted under the applicable rules and regulations of the Securities and Exchange Commission (SEC), the consolidated financial statements do not include all disclosures normally included with audited consolidated financial statements and, accordingly, should be read together with the audited consolidated financial statements and notes thereto in our Annual Report on Form 10-K for the year ended December 31, 2011 filed with the SEC. The consolidated statements of operations presented in the accompanying consolidated financial statements are not necessarily representative of operations for an entire year.

*Variable Interest Entities*

In determining whether we are the primary beneficiary of a VIE for financial reporting purposes, we consider whether we have the power to direct the activities of the VIE that most significantly impact the economic performance of the VIE and whether we have the obligation to absorb losses or the right to receive returns that would be significant to the VIE. We consolidate VIEs when we are the primary beneficiary. The assets of our consolidated VIEs can only be used to settle the obligations of the VIE. All the liabilities, including debt held by our VIEs, are non-recourse to us. However, our senior secured credit facility (Bank Credit Agreement) contains cross-default provisions with the VIE debt of Cunningham Broadcasting Corporation (Cunningham). See *Note 6, Related Person Transactions* for more information.

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We have entered into Local Marketing Agreements (LMAs) to provide programming, sales and managerial services for television stations of Cunningham, the license owner of seven television stations as of March 31, 2012. We pay LMA fees to Cunningham and also reimburse all operating expenses. We also have an acquisition agreement in which we have a purchase option to buy the license assets of the television stations which includes the Federal Communications Commission (FCC) license and certain other assets used to operate the station (License Assets). Our applications to acquire the FCC licenses are pending approval. We own the majority of the non-license assets of the Cunningham stations and our Bank Credit Agreement contain certain cross-default provisions with Cunningham whereby a default by Cunningham caused by insolvency would cause an event of default under our Bank Credit Agreement. We have determined that the Cunningham stations are VIEs and that based on the terms of the agreements, the significance of our investment in the stations and the cross-default provisions with our Bank Credit Agreement, we are the primary beneficiary of the variable interests because we have the power to direct the activities which significantly impact the economic performance of the VIE through the sales and managerial services we provide and we absorb losses and returns that would be considered significant to Cunningham. See *Note 6, Related Person Transactions* for more information on our arrangements with Cunningham. Included in the accompanying consolidated statements of operations for each of the three months ended March 31, 2012 and 2011 are net revenues of \$23.3 million, respectively, that relate to LMAs with Cunningham.

We have outsourcing agreements with certain other license owners, under which we provide certain non-programming related sales, operational and administrative services. We pay a fee to the license owners based on a percentage of broadcast cash flow and we reimburse all operating expenses. We also have a purchase option to buy the License Assets. For the same reasons noted above regarding the LMAs with Cunningham, we have determined that the outsourced license station assets are VIEs and we are the primary beneficiary. Included in the accompanying consolidated statements of operations for the three months ended March 31, 2012 and 2011 are net revenues of \$3.7 million and \$3.1 million, respectively, that relate to these arrangements.

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As of the dates indicated, the carrying amounts and classification of the assets and liabilities of the VIEs mentioned above which have been included in our consolidated balance sheets for the periods presented (in thousands):

|   | As of March 31, |        | As of December 31, |        |
|---|-----------------|--------|--------------------|--------|
|   | 2012            |        | 2011               |        |
| <b>ASSETS</b>   |                 |        |                    |        |
| <b>CURRENT ASSETS:</b>  |                 |        |                    |        |
| Cash and cash equivalents   | \$              | 2,867  | \$                 | 2,739  |
| Accounts receivable   |                 | 6      |                    |        |
| Income taxes receivable   |                 | 86     |                    | 142    |
| Current portion of program contract costs   |                 | 380    |                    | 413    |
| Prepaid expenses and other current assets   |                 | 118    |                    | 99     |
| Total current asset   |                 | 3,457  |                    | 3,393  |
| PROGRAM CONTRACT COSTS, less current portion                                      |                 | 1,564  |                    | 271    |
| PROPERTY AND EQUIPMENT, net   |                 | 6,502  |                    | 6,658  |
| GOODWILL  |                 | 6,357  |                    | 6,357  |
| BROADCAST LICENSES  |                 | 4,691  |                    | 4,208  |
| DEFINITE-LIVED INTANGIBLE ASSETS, net   |                 | 8,136  |                    | 6,601  |
| OTHER ASSETS  |                 | 13,243 |                    | 5,980  |
| Total assets  | \$              | 43,950 | \$                 | 33,468 |
| <b>LIABILITIES</b>  |                 |        |                    |        |
| <b>CURRENT LIABILITIES:</b>   |                 |        |                    |        |
| Accounts payable  | \$              | 15     | \$                 | 37     |
| Accrued liabilities   |                 | 204    |                    | 315    |
| Current portion of notes payable, capital leases and commercial bank financing    |                 | 8,337  |                    | 11,074 |
| Current portion of program contracts payable                                      |                 | 339    |                    | 373    |
| Total current liabilities   |                 | 8,895  |                    | 11,799 |
| <b>LONG-TERM LIABILITIES:</b>   |                 |        |                    |        |
| Notes payable, capital leases and commercial bank financing, less current portion |                 | 2,381  |                    | 2,411  |
| Program contracts payable, less current portion                                   |                 | 2,199  |                    | 173    |
| Total liabilities   | \$              | 13,475 | \$                 | 14,383 |

The amounts above represent the consolidated assets and liabilities of the VIEs related to our LMAs with Cunningham and outsourcing agreements, for which we are the primary beneficiary, and have been aggregated as they all relate to our broadcast business. Excluded from the amounts above are payments made to Cunningham under the LMA which are treated as a prepayment of the purchase price of the stations and capital leases between us and Cunningham which are eliminated in consolidation. The total payment made under these LMAs as of March 31, 2012 and December 31, 2011, which are excluded from liabilities above, were \$25.4 million and \$22.7 million, respectively. The total capital lease assets excluded from above for each of the three months ended March 31, 2012 and the year ended December 31, 2011 were \$11.8 million, respectively. The risk and reward characteristics of the VIEs are similar.

In the fourth quarter of 2011, we began providing sales, programming and management services to the eight stations owned by Freedom Communications (Freedom) pursuant to an LMA. We have determined that the Freedom stations are VIEs based on the terms of the agreements. We are not the primary beneficiary because the owner of the stations has the power to direct the activities of the VIEs that most significantly impact the economic performance of the VIEs. In the consolidated statements of operations for the three months ended March 31, 2012 are net revenues of \$10.0 million and station production expenses of \$7.8 million related to the Freedom LMAs. Effective April 1, 2012, we completed the acquisition of these stations and the LMA was terminated.



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We have investments in other real estate ventures and investment companies which are considered VIEs. However, we do not participate in the management of these entities including the day-to-day operating decisions or other decisions which would allow us to control the entity, and therefore, we are not considered the primary beneficiary of these VIEs. We account for these entities using the equity or cost method of accounting.

The carrying amounts of our investments in these VIEs for which we are not the primary beneficiary for the periods presented (in thousands):

|                                     | As of March 31, 2012 |                  | As of December 31, 2011 |                  |
|-------------------------------------|----------------------|------------------|-------------------------|------------------|
|                                     | Carrying amount      | Maximum exposure | Carrying amount         | Maximum exposure |
| Investments in real estate ventures | \$ 14,060            | \$ 14,060        | \$ 8,009                | \$ 8,009         |
| Investments in investment companies | 26,193               | 26,193           | 26,276                  | 26,276           |
| Total                               | \$ 40,253            | \$ 40,253        | \$ 34,285               | \$ 34,285        |

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The carrying amounts above are included in other assets in the consolidated balance sheets. The income and loss related to these investments are recorded in income from equity and cost method investments in the consolidated statement of operations. We recorded income of \$1.4 million and less than \$0.1 million in the quarters ended March 31, 2012 and 2011, respectively.

Our maximum exposure is equal to the carrying value of our investments. Our unfunded commitments related to private equity investment funds totaled \$10.9 million as of March 31, 2012 and December 31, 2011.

***Recent Accounting Pronouncements***

In May 2011, the FASB issued new guidance for fair value measurements. The purpose of the new guidance is to have a consistent definition of fair value between U.S. Generally Accepted Accounting Principles (GAAP) and International Financial Reporting Standards (IFRS). Many of the amendments to GAAP are not expected to have a significant impact on practice; however, the new guidance does require new and enhanced disclosure about fair value measurements. The amendments are effective for interim and annual periods beginning after December 15, 2011 and should be applied prospectively. This guidance did not have a material impact on our consolidated financial statements but we have included the additional quantitative and qualitative disclosures required for our Level 3 fair value measurements beginning with the quarter ended March 31, 2012.

***Use of Estimates***

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses in the consolidated financial statements and in the disclosures of contingent assets and liabilities. Actual results could differ from those estimates.

***Restricted Cash***

Upon entering into definitive agreements to purchase assets of Four Points Media Group LLC (Four Points) and Freedom in September 2011 and November 2011, respectively, we were required to deposit 10% of the purchase price for each acquisition into an escrow account. Effective January 1, 2012, we closed the asset acquisition of Four Points for \$200.0 million and used \$20.0 million of restricted cash towards the asset acquisition. As of March 31, 2012, \$38.5 million of restricted cash classified as noncurrent relates to the amount held in escrow for the acquisition of Freedom, which closed effective April 1, 2012.

Additionally, under the terms of certain lease agreements, as of March 31, 2012 and December 31, 2011, we were required to hold \$0.2 million of restricted cash related to the removal of analog equipment from some of our leased towers.

***Revenue Recognition***

Total revenues include: (i) cash and barter advertising revenues, net of agency commissions; (ii) retransmission consent fees; (iii) network compensation; (iv) other broadcast revenues and (v) revenues from our other operating divisions.

Advertising revenues, net of agency commissions, are recognized in the period during which time spots are aired.

Our retransmission consent agreements contain both advertising and retransmission consent elements. We have determined that our retransmission consent agreements are revenue arrangements with multiple deliverables. Advertising and retransmission consent deliverables sold under our agreements are separated into different units of accounting at fair value. Revenue applicable to the advertising element of the arrangement is recognized similar to the advertising revenue policy noted above. Revenue applicable to the retransmission consent element of the arrangement is recognized over the life of the agreement.

***Income Taxes***

Our income tax provision for all periods consists of federal and state income taxes. The tax provision for the three months ended March 31, 2012 and 2011 is based on the estimated effective tax rate applicable for the full year after taking into account discrete tax items and the effects of the noncontrolling interests.

Our effective income tax rate for the three months ended March 31, 2011 approximated the statutory rate. Our effective income tax rate for the three months ended March 31, 2012 was lower than the statutory rate primarily due to a release of \$7.7 million of valuation allowance related to certain deferred tax assets of Cunningham, one of our consolidated VIEs, as the weight of all available evidence now supports full realization of those deferred tax assets.

Table of Contents**Reclassifications**

Certain reclassifications have been made to prior years' consolidated financial statements to conform to the current year's presentation.

**2. ACQUISITIONS***Four Points*

Effective January 1, 2012, we completed the previously announced acquisition of the broadcast assets of Four Points Media Group LLC (Four Points), which we had previously operated pursuant to a LMA since October 1, 2011. The acquired assets consist of the following seven stations in four markets along with the respective network affiliation or program service arrangements: KUTV (CBS) and KMYU (MNT / This TV) in Salt Lake City / St. George, UT; KEYE (CBS) in Austin, TX; WTVX (CW), WTCN (MNT) and WWHB (Azteca) in West Palm Beach / Fort Pierce / Stuart, FL; and WLWC (CW) in Providence, RI / New Bedford, MA. The Four Points acquisition will extend our national reach.

We paid Four Points \$200.0 million in cash, less a working capital adjustment of \$0.9 million. The acquisition was financed with a \$180.0 million draw under a recently raised incremental Term B Loan commitment under our amended Bank Credit Agreement plus a \$20 million cash escrow previously paid.

Under the acquisition method of accounting, the results of the acquired operations are included in the consolidated financial statements of the Company beginning January 1, 2012. The initial purchase price has been allocated to the acquired assets and assumed liabilities based on estimated fair values. The purchase price allocation is preliminary pending a final determination of the fair values of the assets and liabilities. The initial allocated fair value of acquired assets and assumed liabilities is summarized as follows (in thousands):

|  |    |         |
|--|----|---------|
| Prepaid expenses and other current assets      | \$ | 320     |
| Program contract costs                         |    | 4,118   |
| Property and equipment                         |    | 34,513  |
| Broadcast licenses                             |    | 10,658  |
| Definite-lived intangible assets               |    | 90,099  |
| Other assets                                   |    | 548     |
| Accrued liabilities                            |    | (524)   |
| Program contracts payable                      |    | (5,524) |
| Fair value of identifiable net assets acquired |    | 134,208 |
| Goodwill                                       |    | 64,868  |
| Total  | \$ | 199,076 |

The preliminary allocation presented above is based upon management's estimate of the fair values using valuation techniques including income, cost and market approaches. In estimating the fair value of the acquired assets and assumed liabilities, the fair value estimates are based on, but not limited to, expected future revenue and cash flows, expected future growth rates, and estimated discount rates. The amount allocated to

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definite-lived intangible assets represents the estimated fair values of network affiliations of \$66.9 million, the decaying advertiser base of \$9.4 million, and other intangible assets of \$13.8 million. These intangible assets will be amortized over the estimated remaining useful lives of 15 years for network affiliations, 10 years for the decaying advertiser base and a weighted average of 14 years for the other intangible assets. Acquired property and equipment will be depreciated on a straight-line basis over the respective estimated remaining useful lives. Goodwill is calculated as the excess of the consideration transferred over the fair value of the identifiable net assets acquired and represents the future economic benefits expected to arise from other intangible assets acquired that do not qualify for separate recognition, including assembled workforce and noncontractual relationships, as well as expected future synergies. We expect that goodwill will be deductible for tax purposes. The initial purchase price allocation is based upon all information available to us at the present time and is subject to change, and such changes could be material.

Prior to the acquisition, since October 1, 2011, we provided sales, programming and management services to the stations pursuant to the LMA. During that period, we funded the working capital needs of the stations, which totaled \$8.1 million as of December 31, 2011 and was reflected as cash flows used in operating activities within the consolidated statement of cash flows for that period. This working capital is not reflected in the purchase price allocation presented above.

In connection with the acquisition, we incurred a total of \$0.7 million of costs primarily related to legal and other professional services, which were expensed as incurred. For the three months ended March 31, 2012, \$0.3 million of such costs were included in corporate general and administrative expenses in the consolidated statement of operations. See *Note 4. Notes Payable and Commercial Bank Financing* for information related to financing costs associated with the incremental borrowing used to fund the acquisition.

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The results of operations for the three months ended March 31, 2012 include the results of the Four Points stations since January 1, 2012. Net broadcast revenues and operating income of the Four Points stations included in our consolidated statement of operations for the three months ended March 31, 2012 were \$17.8 million and \$4.5 million, respectively.

The following table sets forth unaudited pro forma results of operations, assuming that the above acquisition, along with transactions necessary to finance the acquisition, occurred on January 1, 2011 (in thousands, except per share data):

|  | For the Three Months Ended |         |            |
|--|----------------------------|---------|------------|
|  | March 31,                  |         |            |
|  | 2012                       |         | 2011       |
| Total revenues   | \$                         | 223,836 | \$ 198,411 |
| Net income   | \$                         | 29,287  | \$ 15,712  |
| Net income attributable to Sinclair Broadcast Group                                  | \$                         | 29,572  | \$ 15,864  |
| Basic and diluted earnings per common share attributable to Sinclair Broadcast Group | \$                         | 0.37    | \$ 0.20    |

This pro forma financial information is based on historical results of operations, adjusted for the allocation of the purchase price and other acquisition accounting adjustments, and is not necessarily indicative of what our results would have been had we operated the business since January 1, 2011. The pro forma adjustments reflect depreciation expense, amortization of intangibles and amortization of program contract costs related to the fair value adjustments of the assets acquired, additional interest expense related to the financing of the transaction, exclusion of nonrecurring financing and transaction related costs and the related tax effects of the adjustments.

*Subsequent event*

Effective April 1, 2012, we completed the previously announced acquisition of the broadcast assets of Freedom Communications (Freedom), which we had previously operated pursuant to a LMA since December 1, 2011. The acquired assets consist of the following eight stations in seven markets along with the respective network affiliation or program service arrangements: WPEC (CBS) in West Palm Beach, FL; WWMT (CBS) in Grand Rapids/Kalamazoo/Battle Creek, MI; WRGB (CBS) and WCWN (CW) in Albany, NY; WTVN (ABC) in Chattanooga, TN; WLAJ (ABC) in Lansing, MI; KTVL (CBS) in Medford-Klamath Falls, OR; and KFDM (CBS) in Beaumont/Port Arthur/Orange, TX. The Freedom acquisition will extend our national reach.

We paid Freedom \$385.0 million, which is subject to a post close working capital adjustment. We financed the acquisition and a portion of the closing costs with a draw under a recently raised \$157.5 million incremental Term Loan A and a \$192.5 million incremental Term B Loan commitment under our amended Bank Credit Facility, plus a \$38.5 million cash escrow previously paid in November 2011.

Prior to the acquisition, since December 1, 2011, we provided sales, programming and management services to the stations pursuant to the LMA. During that period, we funded the working capital needs of the stations, which totaled \$9.6 million as of March 31, 2012 and was reflected as cash flows used in operating activities within the consolidated statement of cash flows for that period.

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Due to the limited time since the acquisition date and the filing of our Quarterly Report on Form 10-Q for the three months ended March 31, 2012, the initial accounting for the business combination is incomplete at this time. As a result, we are unable to provide amounts recognized as of the acquisition date for major classes of assets and liabilities acquired and resulting from the transaction, including the information required for intangible assets and goodwill. Also, because the initial accounting for the transaction is incomplete, we are unable to provide the supplemental pro forma revenue and earnings of the combined entity. We will include this information in our Quarterly Report on Form 10-Q for the six months ended June 30, 2012.

### 3. COMMITMENTS AND CONTINGENCIES:

#### *Litigation*

We are a party to lawsuits and claims from time to time in the ordinary course of business. Actions currently pending are in various stages and no material judgments or decisions have been rendered by hearing boards or courts in connection with such actions. After reviewing developments to date with legal counsel, our management is of the opinion that the outcome of our pending and threatened matters will not have a material adverse effect on our consolidated balance sheets, consolidated statements of operations or consolidated statements of cash flows.

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Various parties have filed petitions to deny our applications for the following stations license renewals: WXLV-TV, Winston-Salem, North Carolina; WMYV-TV, Greensboro, North Carolina; WLFL-TV, Raleigh/Durham, North Carolina; WRDC-TV, Raleigh/Durham, North Carolina; WLOS-TV, Asheville, North Carolina, WMMP-TV, Charleston, South Carolina; WTAT-TV, Charleston, South Carolina; WMYA-TV, Anderson, South Carolina; WICS-TV and WICD-TV in Springfield/Champaign, Illinois and WCGV-TV and WVTM-TV in Milwaukee, Wisconsin. The FCC is in the process of considering the renewal applications and we believe the petitions have no merit.

**4. NOTES PAYABLE AND COMMERCIAL BANK FINANCING**

In January 2012, we drew \$180.0 million of the incremental Term Loan B to fund the asset acquisition of Four Points, which closed January 1, 2012. In addition, in April 2012, we drew \$157.5 million of the incremental Term Loan A and \$192.5 million of the incremental Term Loan B under our senior secured credit facility to fund the asset acquisition of Freedom, which closed April 1, 2012. During the three months ended March 31, 2012, we repaid the \$12.0 million we had previously drawn on our revolver, and as of March 31, 2012 we had no amounts drawn on our revolver.

**5. EARNINGS PER SHARE**

The following table reconciles income (numerator) and shares (denominator) used in our computations of earnings per share for the periods presented (in thousands):

|   | <b>Three Months Ended March 31,</b> |             |
|---|-------------------------------------|-------------|
|   | <b>2012</b>                         | <b>2011</b> |
| <b>Income (Numerator)</b>   |                                     |             |
| Income from continuing operations   | \$ 29,141                           | \$ 15,234   |
| Income impact of assumed conversion of the 4.875% Notes, net of taxes                                       | 45                                  | 42          |
| Net loss attributable to noncontrolling interests included in continuing operations                         | 285                                 | 152         |
| Numerator for diluted earnings per common share from continuing operations available to common shareholders | 29,471                              | 15,428      |
| Loss from discontinued operations, net of taxes   | (67)                                | (107)       |
| Numerator for diluted earnings available to common shareholders   | \$ 29,404                           | \$ 15,321   |
| <b>Shares (Denominator)</b>   |                                     |             |
| Weighted-average common shares outstanding  | 80,852                              | 80,367      |
| Dilutive effect of stock-settled appreciation rights, restricted stock awards and outstanding stock options | 21                                  | 69          |
| Dilutive effect of 4.875% Notes   | 254                                 | 254         |
| Weighted-average common and common equivalent shares outstanding  | 81,127                              | 80,690      |

Potentially dilutive securities representing 1.5 million and 4.2 million shares of common stock for the three months ended March 31, 2012 and 2011, respectively, were excluded from the computation of diluted earnings per common share for these periods because their effect would have been antidilutive. The decrease in potentially dilutive securities is primarily related to the full redemption of our 6.0% Convertible Debentures (6.0% Notes) in April 2011. The net income per share amounts are the same for Class A and Class B Common Stock because the holders of each class are legally entitled to equal per share distributions whether through dividends or in liquidation.



**6. RELATED PERSON TRANSACTIONS**

David, Frederick, Duncan and Robert Smith (collectively, the controlling shareholders) are brothers and hold substantially all of the Class B Common Stock and some of our Class A Common Stock. We engaged in the following transactions with them and/or entities in which they have substantial interests.

*Related Person Leases.* Certain assets used by us and our operating subsidiaries are leased from Cunningham Communications, Inc., Keyser Investment Group, Gerstell Development Limited Partnership and Beaver Dam, LLC (entities owned by the controlling shareholders). Lease payments made to these entities were \$1.1 million for each of the three months ended March 31, 2012 and 2011.

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*Bay TV.* In January 1999, we entered into a LMA with Bay Television, Inc. (Bay TV), which owns the television station WTTA-TV in Tampa/St. Petersburg, Florida market. Our controlling shareholders own a substantial portion of the equity of Bay TV. Payments made to Bay TV were \$1.8 million and \$0.8 million for the three months ended March 31, 2012 and 2011, respectively.

*Cunningham Broadcasting Corporation.* We have options from trusts established by Carolyn C. Smith, a parent of our controlling shareholders, for the benefit of her grandchildren that will grant us the right to acquire, subject to applicable FCC rules and regulations, 100% of the capital stock of Cunningham Broadcasting Corporation (Cunningham) or 100% of the capital stock or assets of Cunningham's individual subsidiaries. As of March 31, 2012 Cunningham was the owner-operator and FCC licensee of: WNUV-TV, Baltimore, Maryland; WRGT-TV, Dayton, Ohio; WVAH-TV, Charleston, West Virginia; WTAT-TV, Charleston, South Carolina; WMYA-TV, Anderson, South Carolina; WTTE-TV, Columbus, Ohio; and WDBB-TV, Birmingham, Alabama (collectively the Cunningham Stations).

In addition to the option agreement, we entered into five-year LMAs (with five-year renewal terms at our option) with Cunningham pursuant to which we provide programming to Cunningham for airing on the Cunningham Stations.

On October 28, 2009, we entered into amendments and/or restatements of the following agreements between Cunningham and us: (i) the LMAs, (ii) option agreements to acquire Cunningham stock and (iii) certain acquisition or merger agreements relating to the Cunningham Stations. Such amendments and/or restatements became effective on November 5, 2009.

In consideration of the new terms of the LMAs, options and other agreements, beginning on January 1, 2010 and ending on July 1, 2012, we are obligated to pay Cunningham the sum of approximately \$29.1 million in 10 quarterly installments of \$2.75 million and one quarterly payment of approximately \$1.6 million, which amounts will be used to pay off Cunningham's bank credit facility and which amounts will be credited toward the purchase price for each Cunningham station. An additional \$3.9 million will be paid in two installments on July 1, 2012 and October 1, 2012 as an additional LMA fee. The aggregate purchase price of the television stations, \$78.5 million pursuant to certain acquisition or merger agreements, will be decreased by each payment made by us to Cunningham up to \$29.1 million in the aggregate, pursuant to the foregoing transactions with Cunningham as such payments are made. Beginning on January 1, 2013, we will be obligated to pay Cunningham an annual LMA fee for the television stations equal to the greater of (i) 3% of each station's annual net broadcast revenue and (ii) \$5.0 million. The amended or restated LMAs and option agreements have been approved pursuant to our related person transaction policy.

We continue to reimburse Cunningham for 100% of its operating costs, as well as pay Cunningham a monthly payment of \$50,000 through December 2012. In accordance with the effective date of the abovementioned amendments and/or restatements, the \$50,000 monthly payment no longer reduces the option exercise price.

We made payments to Cunningham under these LMA and other agreements of \$3.9 million and \$4.2 million for the three months ended March 31, 2012 and 2011, respectively. For each of the three months ended March 31, 2012 and 2011, Cunningham Stations provided us with approximately \$23.3 million of total revenue. The financial statements for Cunningham are included in our consolidated financial statements for all periods presented. Our Bank Credit Agreement contains certain cross-default provisions with certain material third-party licenses. As of March 31, 2012, Cunningham was the sole material third-party licensee.

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*Atlantic Automotive.* We sold advertising time to and purchased vehicles and related vehicle services from Atlantic Automotive Corporation (Atlantic Automotive), a holding company which owns automobile dealerships and an automobile leasing company. David D. Smith, our President and Chief Executive Officer, has a controlling interest in, and is a member of the Board of Directors of Atlantic Automotive. We received payments for advertising totaling less than \$0.1 million for each of the three months ended March 31, 2012 and 2011. We paid \$0.2 million for vehicles and related vehicle services from Atlantic Automotive for each of the three months ended March 31, 2012 and 2011.

*Thomas & Libowitz P.A.* Basil A. Thomas, a member of our Board of Directors, is the father of Steven A. Thomas, a partner and founder of Thomas & Libowitz, P.A. (Thomas & Libowitz), a law firm providing legal services to us on an ongoing basis. We paid fees of \$0.2 million and \$0.1 million to Thomas & Libowitz during the three months ended March 31, 2012 and 2011, respectively.

*Charter Aircraft.* From time to time, we charter aircraft owned by certain controlling shareholders. We incurred \$0.1 million and less than \$0.1 million for the three months ended March 31, 2012 and 2011, respectively, related to these arrangements.

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We measure segment performance based on operating income (loss). Our broadcast segment includes stations in 45 markets, of which 11 markets are operated pursuant to LMAs, located predominately in the eastern, mid-western and southern United States. Our other operating divisions segment primarily earned revenues from sign design and fabrication; regional security alarm operating and bulk acquisitions and real estate ventures. All of our other operating divisions are located within the United States. Corporate costs primarily include our costs to operate as a public company and to operate our corporate headquarters location. Corporate is not a reportable segment. We had approximately \$170.8 million and \$168.7 million of intercompany loans between the broadcast segment, operating divisions segment and corporate as of March 31, 2012 and 2011, respectively. We had \$5.0 million and \$4.8 million in intercompany interest expense related to intercompany loans between the broadcast segment, other operating divisions segment and corporate for the three months ended March 31, 2012, and 2011, respectively. Intercompany loans and interest expense are excluded from the tables below. All other intercompany transactions are immaterial.

Financial information for our operating segments are included in the following tables for the periods presented (in thousands).

| <b>For the three months ended March 31, 2012</b>                            | <b>Broadcast</b> | <b>Other<br/>Operating<br/>Divisions</b> | <b>Corporate</b> | <b>Consolidated</b> |
|---|------------------|--|------------------|---------------------|
| Revenue   | \$ 209,888       | \$ 13,948                                | \$               | \$ 223,836          |
| Depreciation of property and equipment                                      | 8,699            | 407                                      | 383              | 9,489               |
| Amortization of definite-lived intangible assets and other assets           | 4,567            | 1,332                                    |                  | 5,899               |
| Amortization of program contract costs and net realizable value adjustments | 14,280           |  |                  | 14,280              |
| General and administrative overhead expenses                                | 7,903            | 611                                      | 853              | 9,367               |
| Operating income (loss)   | 61,830           | (672)                                    | (1,236)          | 59,922              |
| Interest expense  |                  | 854                                      | 26,533           | 27,387              |
| Income from equity and cost method investments                              |                  | 1,276                                    |                  | 1,276               |
| Assets  | 1,501,147        | 234,950                                  | 35,148           | 1,771,245           |

| <b>For the three months ended March 31, 2011</b>                            | <b>Broadcast</b> | <b>Other<br/>Operating<br/>Divisions</b> | <b>Corporate</b> | <b>Consolidated</b> |
|---|------------------|--|------------------|---------------------|
| Revenue   | \$ 173,183       | \$ 9,426                                 | \$               | \$ 182,609          |
| Depreciation of property and equipment                                      | 7,345            | 310                                      | 405              | 8,060               |
| Amortization of definite-lived intangible assets and other assets           | 3,955            | 841                                      |                  | 4,796               |
| Amortization of program contract costs and net realizable value adjustments | 12,618           |  |                  | 12,618              |
| Impairment of goodwill, intangible and other assets                         | 398              |  |                  | 398                 |
| General and administrative overhead expenses                                | 7,632            | 282                                      | 750              | 8,664               |
| Operating income (loss)   | 52,628           | 8  | (1,160)          | 51,476              |
| Interest expense  |                  | 627                                      | 28,540           | 29,167              |
| Income from equity and cost method investments                              |                  | 11                                       |                  | 11                  |

**8. FAIR VALUE MEASUREMENTS:**

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Accounting guidance provides for valuation techniques, such as the market approach (comparable market prices), the income approach (present value of future income or cash flow), and the cost approach (cost to replace the service capacity of an asset or replacement cost). A fair value hierarchy using three broad levels prioritizes the inputs to valuation techniques used to measure fair value. The following is a brief description of those three levels:

- *Level 1:* Observable inputs such as quoted prices (unadjusted) in active markets for identical assets or liabilities.
- *Level 2:* Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets and quoted prices for identical or similar assets or liabilities in markets that are not active.
- *Level 3:* Unobservable inputs that reflect the reporting entity's own assumptions.

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The carrying value and fair value of our notes, debentures, program contracts payable and non-cancelable commitments for the periods presented (in thousands):

|  | March 31, 2012 |            | December 31, 2011 |            |
|--|----------------|------------|-------------------|------------|
|  | Carrying Value | Fair Value | Carrying Value    | Fair Value |
| 4.875% Convertible Senior Notes due 2018 | \$ 5,685       | \$ 5,685   | \$ 5,685          | \$ 5,685   |
| 3.0% Convertible Senior Notes due 2027   | 5,400          | 5,400      | 5,400             | 5,400      |
| 8.375% Senior Notes due 2018             | 234,594        | 258,167    | 234,512           | 246,884    |
| 9.25% Senior Second Lien Notes due 2017  | 489,403        | 557,500    | 489,052           | 549,690    |
| Term Loan A                              | 112,844        | 111,997    | 115,000           | 112,700    |
| Term Loan B                              | 394,348        | 399,924    | 217,002           | 221,700    |
| Cunningham Bank Credit Facility          | 8,225          | 8,292      | 10,967            | 11,100     |
| Active program contracts payable         | 83,466         | 73,162     | 91,450            | 88,699     |
| Future program liabilities (a)           | 135,285        | 114,260    | 125,075           | 105,166    |

(a) Future program liabilities reflect a license agreement for program material that is not yet available for its first showing or telecast and is, therefore, not recorded as an asset or liability on our balance sheet. The carrying value reflects the undiscounted future payments.

The fair value of our 8.375% Senior Notes due 2018 (the 8.375% Notes) and 9.25% Senior Second Lien Notes due 2017 (the 9.25% Notes) is determined using quoted prices using Level 2 hierarchy inputs described above. The carrying value of our 3.0% and 4.875% Notes approximates their fair value using Level 3 hierarchy inputs. Our Term Loan A, Term Loan B and Cunningham's bank credit facility are fair valued using Level 2 hierarchy inputs.

Our estimates of the fair value of active program contracts payable and future program liabilities were based on discounted cash flows using Level 3 inputs described above. The discount rate represents an estimate of a market participants' return and risk applicable to program contracts. The discount rate used to determine the fair value of active and future program liabilities was 8.00% as of March 31, 2012 and December 31, 2011. Significant increases (decreases) in the discount rate would result in a significantly lower (higher) fair value measurement.

## 9. CONDENSED CONSOLIDATING FINANCIAL STATEMENTS:

Sinclair Television Group, Inc. (STG), a wholly-owned subsidiary and the television operating subsidiary of Sinclair Broadcast Group, Inc. (SBG), is the primary obligor under the Bank Credit Agreement, the 8.375% Notes and the 9.25% Notes. Our Class A Common Stock, Class B Common Stock, the 4.875% Notes and the 3.0% Notes, as of March 31, 2012, were obligations or securities of SBG and not obligations or securities of STG. SBG was the obligor of the 6.0% Notes until they were fully redeemed in 2011. SBG is a guarantor under the Bank Credit Agreement, the 9.25% Notes and the 8.375% Notes. As of March 31, 2012 our consolidated total debt of \$1,367.2 million included \$1,281.3 million of debt related to STG and its subsidiaries of which SBG guaranteed \$1,231.2 million.

SBG, KDSM, LLC, a wholly-owned subsidiary of SBG, and STG's wholly-owned subsidiaries (guarantor subsidiaries), have fully and unconditionally guaranteed, subject to certain customary automatic release provisions, all of STG's obligations. Those guarantees are joint and several. There are certain contractual restrictions on the ability of SBG, STG or KDSM, LLC to obtain funds from their subsidiaries in the form

of dividends or loans.

The following condensed consolidating financial statements present the consolidated balance sheets, consolidated statements of operations and comprehensive income and consolidated statements of cash flows of SBG, STG, KDSM, LLC and the guarantor subsidiaries, the direct and indirect non-guarantor subsidiaries of SBG and the eliminations necessary to arrive at our information on a consolidated basis. These statements are presented in accordance with the disclosure requirements under SEC Regulation S-X, Rule 3-10.

Table of Contents**CONDENSED CONSOLIDATING BALANCE SHEET****AS OF MARCH 31, 2012**

(in thousands) (unaudited)

|  | <b>Sinclair<br/>Broadcast<br/>Group, Inc.</b> | <b>Sinclair<br/>Television<br/>Group, Inc.</b> | <b>Guarantor<br/>Subsidiaries<br/>and KDSM,<br/>LLC</b> | <b>Non-<br/>Guarantor<br/>Subsidiaries</b> | <b>Eliminations</b> | <b>Sinclair<br/>Consolidated</b> |           |         |          |             |        |           |
|--|---|--|---|--|---------------------|----------------------------------|-----------|---------|----------|-------------|--------|-----------|
| Cash   | \$  | \$   | 17,311  | \$   | 980                 | \$                               | 8,511     | \$      | (26,802) | \$          | 26,802 |           |
| Accounts receivable, net                                       |   | 40   | 623   | 131,415                                    | 5,346               | (347)                            | 137,077   |         |          |             |        |           |
| Other current assets   |   | 383  | 3,505   | 51,212                                     | 3,569               | (284)                            | 58,385    |         |          |             |        |           |
| Total current assets   |   | 423  | 21,439  | 183,607                                    | 17,426              | (631)                            | 222,264   |         |          |             |        |           |
| Property and equipment, net                                    |   | 7,851  | 9,195   | 203,127                                    | 100,819             | (6,558)                          | 314,434   |         |          |             |        |           |
| Investment in consolidated subsidiaries                        |   |  | 758,910   |  |                     | (758,910)                        |           |         |          |             |        |           |
| Restricted cash  |   |  | 38,506  | 223  |                     |                                  | 38,729    |         |          |             |        |           |
| Other long-term assets   |   | 86,356   | 360,943   | 14,924                                     | 113,475             | (433,023)                        | 142,675   |         |          |             |        |           |
| Total other long-term assets                                   |   | 86,356   | 1,158,359   | 15,147                                     | 113,475             | (1,191,933)                      | 181,404   |         |          |             |        |           |
| Acquired intangible assets                                     |   |  |   | 996,027                                    | 74,153              | (17,037)                         | 1,053,143 |         |          |             |        |           |
| Total assets   | \$  | 94,630   | \$  | 1,188,993                                  | \$                  | 1,397,908                        | \$        | 305,873 | \$       | (1,216,159) | \$     | 1,771,245 |
| Accounts payable and accrued liabilities                       | \$  | 331  | \$  | 41,099                                     | \$                  | 59,891                           | \$        | 8,210   | \$       | (2,851)     | \$     | 106,680   |
| Current portion of long-term debt                              |   | 435  | 15,181  | 642  | 19,979              |                                  | 36,237    |         |          |             |        |           |
| Current portion of affiliate long-term debt                    |   | 1,032  |   | 2,073                                      | 321                 | (321)                            | 3,105     |         |          |             |        |           |
| Other current liabilities                                      |   |  |   | 72,121                                     | 260                 |                                  | 72,381    |         |          |             |        |           |
| Total current liabilities                                      |   | 1,798  | 56,280  | 134,727                                    | 28,770              | (3,172)                          | 218,403   |         |          |             |        |           |
| Long-term debt   |   | 12,738   | 1,217,534   | 37,312                                     | 44,543              |                                  | 1,312,127 |         |          |             |        |           |
| Affiliate long-term debt                                       |   | 7,129  |   | 8,600                                      | 252,118             | (252,118)                        | 15,729    |         |          |             |        |           |
| Dividends in excess of investment in consolidated subsidiaries |   | 119,573  |   |  |                     | (119,573)                        |           |         |          |             |        |           |
| Other liabilities  |   | 51,210   | 2,152   | 458,959                                    | 63,010              | (263,134)                        | 312,197   |         |          |             |        |           |
| Total liabilities  |   | 192,448  | 1,275,966   | 639,598                                    | 388,441             | (637,997)                        | 1,858,456 |         |          |             |        |           |
| Common stock   |   | 811  |   | 10   |                     | (10)                             | 811       |         |          |             |        |           |
| Additional paid-in capital                                     |   | 620,855  | (261)   | 404,886                                    | 54,155              | (458,780)                        | 620,855   |         |          |             |        |           |
| Accumulated (deficit) earnings                                 |   | (714,740)                                      | (83,705)  | 355,735                                    | (137,117)           | (134,913)                        | (714,740) |         |          |             |        |           |
| Accumulated other comprehensive (loss) income                  |   | (4,744)  | (3,007)   | (2,321)                                    | 394                 | 4,934                            | (4,744)   |         |          |             |        |           |
| Total Sinclair Broadcast Group (deficit) equity                |   | (97,818)                                       | (86,973)  | 758,310                                    | (82,568)            | (588,769)                        | (97,818)  |         |          |             |        |           |
| Noncontrolling interests in consolidated subsidiaries          |   |  |   |  |                     | 10,607                           | 10,607    |         |          |             |        |           |
| Total liabilities and equity (deficit)                         | \$  | 94,630   | \$  | 1,188,993                                  | \$                  | 1,397,908                        | \$        | 305,873 | \$       | (1,216,159) | \$     | 1,771,245 |





Table of Contents**CONDENSED CONSOLIDATING BALANCE SHEET****AS OF DECEMBER 31, 2011**

(in thousands)

|  | <b>Sinclair<br/>Broadcast<br/>Group, Inc.</b> | <b>Sinclair<br/>Television<br/>Group, Inc.</b> | <b>Guarantor<br/>Subsidiaries<br/>and KDSM,<br/>LLC</b> | <b>Non-<br/>Guarantor<br/>Subsidiaries</b> | <b>Eliminations</b> | <b>Sinclair<br/>Consolidated</b> |              |
|--|---|--|---|--|---------------------|----------------------------------|--------------|
| Cash   | \$  | \$ 188   | \$ 313  | \$ 12,466                                  | \$                  | \$ 12,967                        |              |
| Accounts receivable, net                                       |   | 60   | 348   | 126,590                                    | 6,308               | (139)                            | 133,167      |
| Other current assets   |   | 2,430  | 2,561   | 55,855                                     | 3,021               | (284)                            | 63,583       |
| Total current assets   |   | 2,490  | 3,097   | 182,758                                    | 21,795              | (423)                            | 209,717      |
| Property and equipment, net                                    |   | 8,234  | 7,783   | 171,749                                    | 100,362             | (6,607)                          | 281,521      |
| Investment in consolidated subsidiaries                        |   |  | 575,848   |  | (575,848)           |                                  |              |
| Restricted cash  |   |  | 58,503  | 223  |                     | 58,726                           |              |
| Other long-term assets   |   | 86,186   | 353,929   | 17,209                                     | 99,683              | (418,014)                        | 138,993      |
| Total other long-term assets                                   |   | 86,186   | 988,280   | 17,432                                     | 99,683              | (993,862)                        | 197,719      |
| Acquired intangible assets                                     |   |  | 826,175   | 70,492                                     | (14,207)            | 882,460                          |              |
| Total assets   | \$  | \$ 96,910                                      | \$ 999,160  | \$ 1,198,114                               | \$ 292,332          | \$ (1,015,099)                   | \$ 1,571,417 |
| Accounts payable and accrued liabilities                       | \$  | \$ 1,499                                       | \$ 30,888   | \$ 51,119                                  | \$ 7,555            | \$ (2,491)                       | \$ 88,570    |
| Current portion of long-term debt                              |   | 420  | 14,450  | 589  | 22,736              |                                  | 38,195       |
| Current portion of affiliate long-term debt                    |   | 998  |   | 2,016                                      | 210                 | (210)                            | 3,014        |
| Other current liabilities                                      |   |  |   | 65,431                                     | 372                 |                                  | 65,803       |
| Total current liabilities                                      |   | 2,917  | 45,338  | 119,155                                    | 30,873              | (2,701)                          | 195,582      |
| Long-term debt   |   | 12,811   | 1,055,446   | 37,502                                     | 42,512              |                                  | 1,148,271    |
| Affiliate long-term debt                                       |   | 7,405  |   | 9,140                                      | 246,552             | (246,552)                        | 16,545       |
| Dividends in excess of investment in consolidated subsidiaries |   | 143,857  |   |  |                     | (143,857)                        |              |
| Other liabilities  |   | 51,095   | 2,222   | 457,003                                    | 58,222              | (246,161)                        | 322,381      |
| Total liabilities  |   | 218,085  | 1,103,006   | 622,800                                    | 378,159             | (639,271)                        | 1,682,779    |
| Common stock   |   | 809  |   | 10   |                     | (10)                             | 809          |
| Additional paid-in capital                                     |   | 617,375  | 7,755   | 264,413                                    | 54,304              | (326,472)                        | 617,375      |
| Accumulated (deficit) earnings                                 |   | (734,511)                                      | (108,558)   | 313,269                                    | (140,581)           | (64,130)                         | (734,511)    |
| Accumulated other comprehensive (loss) income                  |   | (4,848)  | (3,043)   | (2,378)                                    | 450                 | 4,971                            | (4,848)      |
| Total Sinclair Broadcast Group shareholders (deficit) equity   |   | (121,175)                                      | (103,846)   | 575,314                                    | (85,827)            | (385,641)                        | (121,175)    |
| Noncontrolling interests in consolidated subsidiaries          |   |  |   |  |                     | 9,813                            | 9,813        |
| Total liabilities and equity (deficit)                         | \$  | \$ 96,910                                      | \$ 999,160  | \$ 1,198,114                               | \$ 292,332          | \$ (1,015,099)                   | \$ 1,571,417 |



Table of Contents**CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS AND COMPREHENSIVE INCOME****FOR THE THREE MONTHS ENDED MARCH 31, 2012**

(in thousands) (unaudited)

|   | Sinclair<br>Broadcast<br>Group, Inc. | Sinclair<br>Television<br>Group, Inc. | Guarantor<br>Subsidiaries<br>and KDSM,<br>LLC | Non-<br>Guarantor<br>Subsidiaries | Eliminations | Sinclair<br>Consolidated |
|---|--------------------------------------|---------------------------------------|---|-----------------------------------|--------------|--------------------------|
| Net revenue   | \$                                   | \$                                    | \$ 210,208                                    | \$ 15,674                         | \$ (2,046)   | \$ 223,836               |
| Program and production  |                                      | 8                                     | 61,891  | 76                                | (1,772)      | 60,203                   |
| Selling, general and<br>administrative                        | 853                                  | 13,631                                | 29,918  | 1,195                             | (101)        | 45,496                   |
| Depreciation, amortization and<br>other operating expenses    | 383                                  | 351                                   | 43,108  | 14,342                            | 31           | 58,215                   |
| Total operating expenses                                      | 1,236                                | 13,990                                | 134,917                                       | 15,613                            | (1,842)      | 163,914                  |
| Operating (loss) income                                       | (1,236)                              | (13,990)                              | 75,291  | 61                                | (204)        | 59,922                   |
| Equity in earnings of<br>consolidated subsidiaries            | 30,191                               | 51,860                                |   |                                   | (82,051)     |                          |
| Interest expense  | (340)                                | (24,764)                              | (1,219)                                       | (6,244)                           | 5,180        | (27,387)                 |
| Other income (expense)  | 600                                  | (283)                                 | 23  | 1,201                             | (129)        | 1,412                    |
| Total other income (expense)                                  | 30,451                               | 26,813                                | (1,196)                                       | (5,043)                           | (77,000)     | (25,975)                 |
| Income tax benefit (provision)                                | 144                                  | 8,125                                 | (21,247)                                      | 8,172                             |              | (4,806)                  |
| Loss from discontinued<br>operations                          |                                      | (67)                                  |   |                                   |              | (67)                     |
| Net income (loss)   | 29,359                               | 20,881                                | 52,848  | 3,190                             | (77,204)     | 29,074                   |
| Net loss attributable to the<br>noncontrolling interests      |                                      |                                       |   |                                   | 285          | 285                      |
| Net income (loss) attributable to<br>Sinclair Broadcast Group | \$ 29,359                            | \$ 20,881                             | \$ 52,848                                     | \$ 3,190                          | \$ (76,919)  | \$ 29,359                |
| Comprehensive income  | \$ 29,178                            | \$ 20,985                             | \$ 52,848                                     | \$ 3,190                          | \$ (77,029)  | \$ 29,178                |

Table of Contents**CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS AND COMPREHENSIVE INCOME****FOR THE THREE MONTHS ENDED MARCH 31, 2011**

(in thousands) (unaudited)

|   | <b>Sinclair<br/>Broadcast<br/>Group, Inc.</b> | <b>Sinclair<br/>Television<br/>Group, Inc.</b> | <b>Guarantor<br/>Subsidiaries<br/>and KDSM,<br/>LLC</b> | <b>Non-<br/>Guarantor<br/>Subsidiaries</b> | <b>Eliminations</b> | <b>Sinclair<br/>Consolidated</b> |
|---|---|--|---|--|---------------------|----------------------------------|
| Net revenue   | \$  | \$   | \$ 173,459  | \$ 11,396                                  | \$ (2,246)          | \$ 182,609                       |
| Program and production  |   | 307  | 43,984  | 94   | (2,040)             | 42,345                           |
| Selling, general and<br>administrative                        | 754   | 7,628  | 30,111  | 829  | (96)                | 39,226                           |
| Depreciation, amortization and<br>other operating expenses    | 405   | 135  | 39,468  | 9,522                                      | 32                  | 49,562                           |
| Total operating expenses                                      | 1,159   | 8,070  | 113,563   | 10,445                                     | (2,104)             | 131,133                          |
| Operating (loss) income                                       | (1,159)                                       | (8,070)  | 59,896  | 951  | (142)               | 51,476                           |
| Equity in earnings of<br>consolidated subsidiaries            | 17,402  | 35,323   |   |  | (52,725)            |                                  |
| Interest expense  | (1,958)                                       | (25,489)                                       | (1,232)   | (5,545)                                    | 5,057               | (29,167)                         |
| Gain on sales of securities                                   |   |  |   | 391  | (391)               |                                  |
| Other income (expense)  | 100   | 5,435  | (4,640)   | 394  | (114)               | 1,175                            |
| Total other income (expense)                                  | 15,544  | 15,269   | (5,872)   | (4,760)                                    | (48,173)            | (27,992)                         |
| Income tax benefit (provision)                                | 894   | 8,245  | (17,739)  | 350  |                     | (8,250)                          |
| Loss from discontinued<br>operations                          |   | (107)  |   |  |                     | (107)                            |
| Net income (loss)   | 15,279  | 15,337   | 36,285  | (3,459)                                    | (48,315)            | 15,127                           |
| Net loss attributable to the<br>noncontrolling interests      |   |  |   |  | 152                 | 152                              |
| Net income (loss) attributable to<br>Sinclair Broadcast Group | \$ 15,279                                     | \$ 15,337                                      | \$ 36,285   | \$ (3,459)                                 | \$ (48,163)         | \$ 15,279                        |
| Comprehensive income  | \$ 15,168                                     | \$ 15,378                                      | \$ 36,285   | \$ (3,459)                                 | \$ (48,204)         | \$ 15,168                        |

Table of Contents**CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS****FOR THE THREE MONTHS ENDED MARCH 31, 2012**

(in thousands) (unaudited)

|   | Sinclair<br>Broadcast<br>Group, Inc. | Sinclair<br>Television<br>Group, Inc. | Guarantor<br>Subsidiaries<br>and KDSM,<br>LLC | Non-<br>Guarantor<br>Subsidiaries | Eliminations | Sinclair<br>Consolidated |
|---|--------------------------------------|---------------------------------------|---|-----------------------------------|--------------|--------------------------|
| <b>NET CASH FLOWS FROM<br/>(USED IN) OPERATING<br/>ACTIVITIES</b>               | \$ 256                               | \$ (22,191)                           | \$ 85,987                                     | \$ 1,682                          | \$ 1,749     | \$ 67,483                |
| <b>CASH FLOWS FROM (USED<br/>IN) INVESTING ACTIVITIES:</b>                      |                                      |                                       |   |                                   |              |                          |
| Acquisition of property and<br>equipment  |                                      | (1,741)                               | (4,675)                                       | (320)                             |              | (6,736)                  |
| Payments for acquisitions of<br>television stations                             |                                      |                                       | (205,622)                                     |                                   |              | (205,622)                |
| Purchase of alarm monitoring<br>contracts                                       |                                      |                                       |   | (3,035)                           |              | (3,035)                  |
| Decrease in restricted cash   |                                      | 20,000                                |   |                                   |              | 20,000                   |
| Investment in equity and cost<br>method investees                               |                                      |                                       |   | (5,503)                           |              | (5,503)                  |
| Proceeds from insurance<br>settlement   |                                      |                                       | 19  |                                   |              | 19                       |
| Loans to affiliates   | (44)                                 | (456)                                 |   |                                   |              | (500)                    |
| Proceeds from loans to affiliates   | 64                                   | 353                                   |   |                                   |              | 417                      |
| Net cash flows from (used in)<br>investing activities                           | 20                                   | 18,156                                | (210,278)                                     | (8,858)                           |              | (200,960)                |
| <b>CASH FLOWS (USED IN)<br/>FROM FINANCING<br/>ACTIVITIES:</b>                  |                                      |                                       |   |                                   |              |                          |
| Proceeds from notes payable,<br>commercial bank financing and<br>capital leases |                                      | 178,200                               |   | 6,282                             |              | 184,482                  |
| Repayments of notes payable,<br>commercial bank financing and<br>capital leases | (100)                                | (16,252)                              | (128)   | (7,049)                           |              | (23,529)                 |
| Proceeds from share based<br>awards   | 279                                  |                                       |   |                                   |              | 279                      |
| Dividends paid on Class A and<br>Class B Common Stock                           | (9,718)                              |                                       |   |                                   | 130          | (9,588)                  |
| Payments for deferred financing<br>costs  |                                      | (3,519)                               |   |                                   |              | (3,519)                  |
| Distributions to noncontrolling<br>interests                                    |                                      |                                       |   | (88)                              |              | (88)                     |
| Repayment of notes and capital<br>leases to affiliates                          | (242)                                |                                       | (483)   |                                   |              | (725)                    |
| Increase (decrease) in<br>intercompany payables                                 | 9,505                                | (137,271)                             | 125,569                                       | 4,076                             | (1,879)      |                          |
| Net cash flows (used in) from<br>financing activities                           | (276)                                | 21,158                                | 124,958                                       | 3,221                             | (1,749)      | 147,312                  |

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|  |    |        |        |     |     |         |       |        |        |
|--|----|--------|--------|-----|-----|---------|-------|--------|--------|
| NET DECREASE IN CASH<br>AND CASH EQUIVALENTS         |    | 17,123 |        | 667 |     | (3,955) |       | 13,835 |        |
| CASH AND CASH<br>EQUIVALENTS, beginning of<br>period |    | 188    |        | 313 |     | 12,466  |       | 12,967 |        |
| CASH AND CASH<br>EQUIVALENTS, end of period          | \$ | \$     | 17,311 | \$  | 980 | \$      | 8,511 | \$     | 26,802 |

Table of Contents**CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS****FOR THE THREE MONTHS ENDED MARCH 31, 2011**

(in thousands) (unaudited)

|  | Sinclair<br>Broadcast<br>Group, Inc. | Sinclair<br>Television<br>Group, Inc. | Guarantor<br>Subsidiaries<br>and KDSM,<br>LLC | Non-<br>Guarantor<br>Subsidiaries | Eliminations | Sinclair<br>Consolidated |
|--|--------------------------------------|---------------------------------------|---|-----------------------------------|--------------|--------------------------|
| NET CASH FLOWS (USED IN)<br>FROM OPERATING<br>ACTIVITIES   | \$ (2,759)                           | \$ (6,823)                            | \$ 68,570                                     | \$ (2,745)                        | \$ (1,286)   | \$ 54,957                |
| CASH FLOWS (USED IN)<br>FROM INVESTING<br>ACTIVITIES:  |                                      |                                       |   |                                   |              |                          |
| Acquisition of property and<br>equipment   |                                      | (4,580)                               | (1,394)                                       | (111)                             |              | (6,085)                  |
| Purchase of alarm monitoring<br>contracts  |                                      |                                       |   | (1,755)                           |              | (1,755)                  |
| Distributions from investments   |                                      |                                       |   | 832                               |              | 832                      |
| Investment in equity and cost<br>method investees  | (2,000)                              |                                       |   | (6,064)                           |              | (8,064)                  |
| Decrease in restricted cash  |                                      | 5,058                                 |   |                                   |              | 5,058                    |
| Proceeds from sales of assets  |                                      |                                       | 26  |                                   |              | 26                       |
| Proceeds from sale of securities   |                                      |                                       |   | 1,808                             | (1,808)      |                          |
| Proceeds from insurance<br>settlement  |                                      |                                       | 1,736   |                                   |              | 1,736                    |
| Loans to affiliates  | (61)                                 |                                       |   |                                   |              | (61)                     |
| Proceeds from loans to affiliates  | 89                                   |                                       |   |                                   |              | 89                       |
| Net cash flows (used in) from<br>investing activities  | (1,972)                              | 478                                   | 368   | (5,290)                           | (1,808)      | (8,224)                  |
| CASH FLOWS FROM (USED<br>IN) FINANCING ACTIVITIES:   |                                      |                                       |   |                                   |              |                          |
| Proceeds from notes payable,<br>commercial bank financing and<br>capital leases                      |                                      | 124,719                               |   | 3,614                             |              | 128,333                  |
| Repayments of notes payable,<br>commercial bank financing and<br>capital leases                      | (86)                                 | (55,467)                              | (99)  | (6,062)                           |              | (61,714)                 |
| Proceeds from exercise of stock<br>options, including excess tax<br>benefits of share based payments | 1,737                                |                                       |   |                                   |              | 1,737                    |
| Proceeds from Class A Common<br>Stock sold by variable interest<br>entity                            |                                      |                                       |   |                                   | 1,808        | 1,808                    |
| Payments for deferred financing<br>costs   |                                      | (4,216)                               |   | (66)                              |              | (4,282)                  |
| Distributions to noncontrolling<br>interest  |                                      |                                       |   | (39)                              |              | (39)                     |
| Dividends paid on Class A and<br>Class B Common Stock  | (9,684)                              |                                       |   |                                   | 93           | (9,591)                  |
|  | (210)                                |                                       | (642)   |                                   |              | (852)                    |



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|  |        |            |          |           |       |            |
|--|--------|------------|----------|-----------|-------|------------|
| Repayment of notes and capital leases to affiliates  |        |            |          |           |       |            |
| Increase (decrease) in intercompany payables         | 12,974 | 45,149     | (68,954) | 9,638     | 1,193 |            |
| Net cash flows from (used in) financing activities   | 4,731  | 110,185    | (69,695) | 7,085     | 3,094 | 55,400     |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS |        | 103,840    | (757)    | (950)     |       | 102,133    |
| CASH AND CASH EQUIVALENTS, beginning of period       |        | 5,071      | 1,022    | 15,881    |       | 21,974     |
| CASH AND CASH EQUIVALENTS, end of period             | \$     | \$ 108,911 | \$ 265   | \$ 14,931 | \$    | \$ 124,107 |

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**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

This report includes or incorporates forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act) and the U.S. Private Securities Litigation Reform Act of 1995. We have based these forward-looking statements on our current expectations and projections about future events. These forward-looking statements are subject to risks, uncertainties and assumptions about us, including, among other things, the following risks:

**General risks**

- the impact of changes in national and regional economies and credit and capital markets;
- consumer confidence;
- the potential impact of changes in tax law;
- the activities of our competitors;
- terrorist acts of violence or war and other geopolitical events;
- natural disasters that impact our advertisers and our stations;

**Industry risks**

- the business conditions of our advertisers particularly in the automotive and service industries;
- competition with other broadcast television stations, radio stations, multi-channel video programming distributors (MVPDs), internet and broadband content providers and other print and media outlets serving in the same markets;
- availability and cost of programming and the continued volatility of networks and syndicators that provide us with programming content;
- the effects of the Federal Communications Commission's (FCC's) National Broadband Plan and the auctioning and potential reallocation of our broadcasting spectrum;
- the effects of governmental regulation of broadcasting or changes in those regulations and court actions interpreting those regulations, including ownership regulations, indecency regulations, retransmission fee regulations and political or other advertising restrictions;
- labor disputes and legislation and other union activity associated with film, acting, writing and other guilds and professional sports leagues;

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- the broadcasting community's ability to develop a viable mobile digital broadcast television (mobile DTV) strategy and platform and the consumer's appetite for mobile television;
- the operation of low power devices in the broadcast spectrum, which could interfere with our broadcast signals;
- the impact of reverse network compensation payments charged by networks pursuant to their affiliation agreements with broadcasters requiring compensation for network programming;
- the effects of new ratings system technologies including people meters and set-top boxes, and the ability of such technologies to be a reliable standard that can be used by advertisers;
- the impact of new FCC rules requiring broadcast stations to publish, among other information, political advertising rates online;
- changes in the makeup of the population in the areas where stations are located;

### **Risks specific to us**

- the effectiveness of our management;
- our ability to attract and maintain local and national advertising;
- our ability to service our debt obligations and operate our business under restrictions contained in our financing agreements;
- our ability to successfully renegotiate retransmission consent agreements;
- our ability to renew our FCC licenses;
- our ability to obtain FCC approval for the purchase of any future acquisitions, as well as, in certain cases, customary antitrust clearance for any future acquisitions;
- our ability to successfully integrate any acquired businesses;
- our ability to maintain our affiliation and programming service agreements with our networks and program service providers and at renewal, to successfully negotiate these agreements with favorable terms;
- our ability to effectively respond to technology affecting our industry and to increasing competition from other media

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providers;

- the popularity of syndicated programming we purchase and network programming that we air;
- the strength of ratings for our local news broadcasts including our news sharing arrangements;
- the successful execution of our multi-channel broadcasting initiatives including mobile DTV; and
- the results of prior year tax audits by taxing authorities.

Other matters set forth in this report and other reports filed with the Securities and Exchange Commission, including the *Risk Factors* set forth in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2011 may also cause actual results in the future to differ materially from those described in the forward-looking statements. However, additional factors and risks not currently known to us or that we currently deem immaterial may also cause actual results in the future to differ materially from those described in the forward-looking statements. You are cautioned not to place undue reliance on any forward-looking statements, which speak only as of the date on which it is made. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. In light of these risks, uncertainties and assumptions, the forward-looking statements discussed in this report might not occur.

The following table sets forth certain operating data for the periods presented:

### STATEMENTS OF OPERATIONS DATA

(in thousands, except for per share data) (Unaudited)

|   | Three Months Ended March 31, |            |
|---|------------------------------|------------|
|   | 2012                         | 2011       |
| <b>Statement of Operations Data:</b>  |                              |            |
| Net broadcast revenues (a)  | \$ 192,204                   | \$ 155,961 |
| Revenues realized from station barter arrangements                              | 17,684                       | 17,222     |
| Other operating divisions revenues  | 13,948                       | 9,426      |
| Total revenues  | 223,836                      | 182,609    |
| Station production expenses   | 60,203                       | 42,345     |
| Station selling, general and administrative expenses                            | 36,129                       | 30,562     |
| Expenses recognized from station barter arrangements                            | 16,257                       | 15,727     |
| Amortization of program contract costs and net realizable value adjustments     | 14,280                       | 12,618     |
| Depreciation and amortization expenses (b)                                      | 15,388                       | 12,856     |
| Impairment of goodwill, intangible and other assets                             |                              | 398        |
| Other operating divisions expenses  | 12,290                       | 7,963      |
| Corporate general and administrative expenses                                   | 9,367                        | 8,664      |
| Operating income  | 59,922                       | 51,476     |
| Interest expense and amortization of debt discount and deferred financing costs | (27,387)                     | (29,167)   |
| Loss from extinguishment of debt  | (335)                        | (924)      |
| Income from equity and cost method investees                                    | 1,276                        | 11         |

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|   |           |           |
|---|-----------|-----------|
| Gain on insurance settlement                          | 19        | 1,723     |
| Other income, net                                     | 452       | 365       |
| Income from continuing operations before income taxes | 33,947    | 23,484    |
| Income tax provision                                  | (4,806)   | (8,250)   |
| Income from continuing operations                     | 29,141    | 15,234    |
| Discontinued operations:                              |           |           |
| Loss from discontinued operations, net of taxes       | (67)      | (107)     |
| Net income  | 29,074    | 15,127    |
| Net loss attributable to the noncontrolling interests | 285       | 152       |
| Net income attributable to Sinclair Broadcast Group   | \$ 29,359 | \$ 15,279 |

**Basic and Diluted Earnings Per Common Share Attributable to Sinclair Broadcast**

**Group:**

|   |         |         |
|---|---------|---------|
| Earnings per share from continuing operations | \$ 0.36 | \$ 0.19 |
| Earnings per share                            | \$ 0.36 | \$ 0.19 |

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|                            | March 31, 2012 | December 31, 2011 |
|----------------------------|----------------|-------------------|
| <b>Balance Sheet Data:</b> |                |                   |
| Cash and cash equivalents  | \$ 26,802      | \$ 12,967         |
| Total assets               | \$ 1,771,245   | \$ 1,571,417      |
| Total debt (c)             | \$ 1,367,198   | \$ 1,206,025      |
| Total equity (deficit)     | \$ (87,211)    | \$ (111,362)      |

(a) Net broadcast revenues is defined as broadcast revenues, net of agency commissions.

(b) Depreciation and amortization includes depreciation and amortization of property and equipment and amortization of definite-lived intangible assets and other assets.

(c) Total debt is defined as notes payable, capital leases and commercial bank financing, including the current and long-term portions.

The following Management's Discussion and Analysis provides qualitative and quantitative information about our financial performance and condition and should be read in conjunction with our consolidated financial statements and the accompanying notes to those statements. This discussion consists of the following sections:

Executive Overview financial events since December 31, 2011;

Results of Operations an analysis of our revenues and expenses for the three months ended March 31, 2012 and 2011, including comparisons between quarters and expectations for the three months ended June 30, 2012.

Liquidity and Capital Resources a discussion of our primary sources of liquidity, an analysis of our cash flows from or used in operating activities, investing activities and financing activities and an update of our debt refinancings during the three months ended March 31, 2012.

**EXECUTIVE OVERVIEW**

*First Quarter 2012 Events*

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- In January, we closed the asset acquisition of Four Points Media Group LLC (Four Points) for \$200.0 million, and financed the acquisition with a \$180.0 million draw under a recently raised incremental Term Loan B commitment under our amended Bank Credit Agreement plus a \$20.0 million cash escrow previously paid; and
- In February, our Board of Directors declared a quarterly dividend of \$0.12 per share.

### *Other Events*

- On April 2, 2012, we closed the asset acquisition of Freedom Communications (Freedom) for \$385.0 million, and financed the acquisition with a draw under a recently raised \$157.5 million incremental Term loan A and a \$192.5 million incremental Term loan B under our amended Bank Credit Agreement plus a \$38.5 million escrow previously paid.
- In May, our Board of Directors declared a quarterly dividend of \$0.12 per share.

## **RESULTS OF OPERATIONS**

In general, this discussion is related to the results of our continuing operations, except for discussions regarding our cash flows, which also include the results of our discontinued operations. The results of the acquired stations from Four Points are included in our results of our continuing operations as of January 1, 2012, the acquisition date. Unless otherwise indicated, references in this discussion and analysis to the first quarter of 2012 and 2011 refer to the three months ended March 31, 2012 and 2011, respectively. Additionally, any references to the second, third or fourth quarter are to the three months ended June 30, September 30, and December 31, respectively, for the year being discussed. We have two reportable segments, broadcast and other operating divisions that are disclosed separately from our corporate activities.

### ***SEASONALITY/CYCLICALITY***

Our operating results are usually subject to seasonal fluctuations. Usually, the second and fourth quarter operating results are higher than first and third quarters because advertising expenditures are increased in anticipation of certain seasonal and holiday spending by consumers.

Our operating results are usually subject to fluctuations from political advertising. In even numbered years, political spending is usually significantly higher than in odd numbered years due to advertising expenditures preceding local and national elections.

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Additionally, every four years, political spending is usually elevated further due to advertising expenditures preceding the presidential election.

**BROADCAST SEGMENT****Broadcast Revenue**

The following table presents our revenues from continuing operations, net of agency commissions, for the periods presented (in millions):

|                              | For the Three Months Ended<br>March 31, |          | Percent<br>Change |
|------------------------------|---|----------|-------------------|
|                              | 2012                                    | 2011     |                   |
| Local revenues:              |   |          |                   |
| Non-political                | \$ 152.2                                | \$ 120.8 | 26.0%             |
| Political                    | 0.6                                     | 0.2      | (a)               |
| Total local                  | 152.8                                   | 121.0    | 26.3%             |
| National revenues:           |   |          |                   |
| Non-political                | 36.4                                    | 34.6     | 5.2%              |
| Political                    | 3.0                                     | 0.4      | (a)               |
| Total national               | 39.4                                    | 35.0     | 12.6%             |
| Total net broadcast revenues | \$ 192.2                                | \$ 156.0 | 23.2%             |

(a) Political revenue is not comparable from year to year due to cyclicity of elections. See *Political Revenues* below for more information.

*Net broadcast revenues.* Net broadcast revenues increased \$36.2 million when comparing the first quarter 2012 to the same period in 2011, of which \$18.4 million was related to stations acquired during the first quarter 2012. Additionally, revenues earned pursuant to the Local Marketing Agreement (LMA) with the Freedom stations during the first quarter 2012 included \$2.2 million for management services performed and \$7.8 million of pass-through costs. The remaining increase was due to increases in advertising revenues generated from the automotive, political, medical and media sectors, partially offset by decreases in the telecommunications, pharmacy-cosmetics, entertainment and fast food sectors. Excluding the stations acquired in the first quarter 2012, automotive, which typically is our largest category, represented 21.3% of the quarter's net time sales and was up 2.0% in the first quarter 2012 compared to the same period in 2011.

From a network affiliation or program service arrangement perspective, the following table sets forth our affiliate percentages of net time sales for the periods presented:

| # of | Percent of Net Time Sales for the<br>Three months ended March 31, | Net Time Sales<br>Percent |
|------|---|---------------------------|
|------|---|---------------------------|



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|             | Stations (a) | 2012  | 2011  | Change |
|-------------|--------------|-------|-------|--------|
| FOX         | 20           | 42.9% | 49.3% | (4.4)% |
| ABC         | 9            | 17.7% | 18.4% | 5.6%   |
| MyNetworkTV | 18           | 15.6% | 15.6% | 10.4%  |
| The CW      | 13           | 12.1% | 13.1% | 1.5%   |
| CBS         | 4            | 10.5% | 2.6%  | 339.1% |
| NBC         | 1            | 0.6%  | 0.5%  | 28.8%  |
| Digital     | (b)          | 0.5%  | 0.5%  | 7.6%   |
| Azteca      | 1            | 0.1%  | %     | %      |
| Total       | 66           |       |       |        |

(a) During the fourth quarter of 2011, we entered into a definitive agreement to purchase the assets of Freedom. As of March 31, 2012, we were operating the Freedom stations pursuant to a LMA. We closed on the acquisition of the Freedom stations effective April 1, 2012. The Freedom stations include the following network affiliations, which are not reflected in the station totals above: CBS (5 stations), ABC (2 stations) and The CW (1 station). The net time sales of the Freedom stations are not included in our revenues for the three months ended March 31, 2012. We recognized \$10.0 million in net broadcast revenues and \$7.8 million of station production expenses related to services performed pursuant to the LMA. The stations' net time sales will be included in our revenues beginning April 1, 2012.

(b) We broadcast programming from network affiliations or program service arrangements with TheCoolTV, The Country Network, CBS (rebroadcasted content from other primary channels within the same markets), The CW, MyNetworkTV, This TV, LATV, Azteca, Telemundo and Estrella on additional channels through our stations' second and third digital signals.

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*Political Revenues.* Political revenues increased by \$3.0 million to \$3.6 million for the first quarter 2012 when compared to the same period in 2011, of which \$0.4 million was related to the stations acquired during the first quarter 2012. Political revenues are typically lower in non-election years such as 2011 and have increased in 2012 due to the presidential election.

*Local Revenues.* Excluding political revenues, our local broadcast revenues, which include local times sales, retransmission revenues and other local revenues, were up \$31.4 million for the first quarter 2012 when compared to the same period in 2011, of which \$9.8 million related to the stations acquired in the first quarter 2012. Additionally, revenues earned pursuant to the LMA with the Freedom stations during the first quarter 2012 included \$2.2 million for management services performed and \$7.8 million of pass-through costs. The remaining increase is due to an increase in advertising spending particularly in the automotive, media and medical sectors and an increase in retransmission revenues from MVPDs. These increases were partially offset by a decrease due to a change in networks for the Super Bowl programming from FOX to NBC.

*National Revenues.* Excluding political revenues, our national broadcast revenues, which include national time sales and other national revenues, were up \$1.8 million for the first quarter 2012 when compared to the same period in 2011, of which \$4.4 million related to the stations acquired in the first quarter 2012. The partially offsetting decrease is due to a decrease in advertising spending by the telecommunication, drugs and cosmetics and automotive sectors.

**Broadcast Expenses**

The following table presents our significant expense categories in our broadcast segment for the periods presented (in millions):

|  | For the Three Months Ended<br>March 31, |         | Percent Change<br>(Increase/<br>(Decrease)) |          |
|--|---|---------|---|----------|
|  | 2012                                    | 2011    |   |          |
| Station production expenses  | \$ 60.2                                 | \$ 42.3 |   | 42.3%    |
| Station selling, general and administrative expenses                           | \$ 36.1                                 | \$ 30.6 |   | 18.0%    |
| Amortization of program contract costs and net<br>realizable value adjustments | \$ 14.3                                 | \$ 12.6 |   | 13.5%    |
| Corporate general and administrative expenses                                  | \$ 7.9                                  | \$ 7.6  |   | 3.9%     |
| Gain on insurance settlement   | \$                                      | \$ 1.7  |   | (100.0)% |
| Impairment of goodwill, intangible and other assets                            | \$                                      | \$ 0.4  |   | (100.0)% |

*Station production expenses.* Station production expenses increased \$17.9 million during the first quarter 2012 compared to the same period in 2011, of which \$5.6 million related to the stations acquired in the first quarter 2012 and \$7.8 million of expenses pursuant to the LMA with the Freedom stations during the first quarter 2012. The remaining increase is primarily due to an increase in compensation expense, an increase in fees pursuant to network affiliation agreements and increased rating service fees due to annual scheduled rate increases.

We expect station production expenses in second quarter 2012 to increase compared to first quarter 2012.

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*Station selling, general and administrative expenses.* Station selling, general and administrative expenses increased \$5.5 million during the first quarter 2012 compared to the same period in 2011, of which \$4.2 million related to the stations acquired in the first quarter 2012. The remaining increase is primarily due to an increase in compensation expense related to an increase in employee and management bonuses, increased local and national sales commission costs, increased building rent expense and increased group insurance costs.

We expect station selling, general and administrative expenses in second quarter 2012 to increase compared to first quarter 2012.

*Amortization of program contract costs and net realizable value adjustments.* The amortization of program contract costs increased during the first quarter 2012 compared to the same period in 2011. This increase is primarily due to entering into new contracts and the effect of stations acquired in the first quarter 2012. We expect program contract amortization to trend higher in second quarter 2012 compared to first quarter 2012.

*Corporate general and administrative expenses.* See explanation under *Corporate and Unallocated Expenses*.

*Gain on insurance settlement.* During 2010, our building for WCGV-TV and WVTM-TV in Milwaukee, Wisconsin flooded due to massive storms. In the first quarter 2011, we recognized a gain on insurance settlement of \$1.7 million related to repairing the building and replacing certain equipment.

*Impairment of goodwill, intangible and other assets.* During first quarter of 2011, we recorded impairments of \$0.4 million related to our broadcast licenses. There were no impairments in the first quarter 2012.

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Triangle Sign & Service, LLC. (Triangle), a sign designer/fabricator, Alarm Funding Associates, LLC (Alarm Funding), a regional security alarm operating and bulk acquisition company, real estate ventures, and other nominal businesses make up our other operating divisions segment. Revenues for our other operating divisions increased \$4.5 million to \$13.9 million during the first quarter 2012 compared to \$9.4 million during the same period in 2011. The increase is primarily due to acquisitions of new alarm monitoring contracts for Alarm Funding and increased revenues due to the Ring of Honor wrestling franchise we purchased in the second quarter of 2011. Expenses of our other operating divisions include operating expenses, depreciation and amortization and applicable other income (expense) items such as interest expense, which increased \$5.1 million to \$14.9 million during the first quarter 2012 compared to \$9.8 million during the same period in 2011. This increase was in correlation with the increase in revenue activity.

A portion of the operating results of Alarm Funding were previously included in discontinued operations in the beginning of 2011 in our consolidated results of operations. It is no longer our intent to divest a portion of Alarm Funding and therefore all of the operations and net assets of Alarm Funding have been classified as continuing operations in our consolidated financial statement as of March 31, 2012 and 2011.

*Income from Equity and Cost Method Investments.* Results of our equity and cost method investments in private investment funds and real estate ventures are included in income from equity and cost method investments in our consolidated statements of operations. During the quarter ended March 31, 2012, we recorded income of \$1.0 million related to our real estate ventures and income of \$0.2 million related to certain private investment funds. During the quarter ended March 31, 2011, we recorded income of \$0.3 million related to our real estate ventures and a loss of \$0.3 million related to certain private investment funds.

**CORPORATE AND UNALLOCATED EXPENSES**

|   | For the Three Months Ended |                   |         | Percent Change<br>(Increase/<br>(Decrease)) |
|---|----------------------------|-------------------|---------|---|
|   | 2012                       | March 31,<br>2011 | 2011    |   |
| Corporate general and administrative expenses | \$ 0.9                     | \$ 0.8            | 12.5%   |   |
| Interest expense                              | \$ 26.5                    | \$ 28.5           | (7.0)%  |   |
| Loss from extinguishment of debt              | \$ (0.3)                   | \$ (0.9)          | (66.7)% |   |
| Income tax provision                          | \$ (4.8)                   | \$ (8.2)          | (41.5)% |   |

*Corporate general and administrative expenses.* We allocate most of our corporate general and administrative expenses to the broadcast segment. The explanation that follows combines the corporate general and administrative expenses found in the *Broadcast Segment* section with the corporate general and administrative expenses found in this section, *Corporate and Unallocated Expenses*. These results exclude general and administrative costs from our other operating divisions segment which are included in our discussion of expenses in the *Other Operating Divisions Segment* section.

Corporate general and administrative expenses increased in first quarter 2012 compared to the same period in 2011. This is primarily due to an increase in transaction costs due to our recent acquisitions.

We expect corporate general and administrative expenses to decrease in the second quarter 2012 compared to first quarter 2012.

*Interest expense.* Interest expense has decreased primarily due to the amendments to our Bank Credit Agreement in 2011 offset by additional interest on our incremental borrowing for our Four Points acquisition and approximately \$1.0 million of interest expense recorded in the first quarter of 2012 primarily related to fees paid for the undrawn commitment for the Freedom acquisition. In first quarter 2011, we amended our Bank Credit Agreement and our interest rate was reduced, however, \$2.8 million in costs associated with the amendment were expensed as interest. Additionally, we fully extinguished our 6.0% Notes in the second quarter 2011. We expect interest expense to increase in second quarter 2012 compared to first quarter 2012 as a result of closing on the acquisition of the Freedom stations.

*Loss from extinguishment of debt.* During the first quarter 2012, we drew down on our incremental borrowing for the Four Points acquisition and wrote off a portion of our deferred financing costs and discount on the Term Loan B, resulting in a loss of \$0.3 million from extinguishment of debt. In first quarter 2011, we amended our Bank Credit Agreement and paid down a portion of our Term Loan B resulting in a loss of \$0.9 million from extinguishment of debt.

*Income tax provision.* The effective tax rate for the three months ended March 31, 2012 including the effects of the noncontrolling interest was a provision of 14.0% as compared to a provision of 34.9% during the same period in 2011. The decrease in the effective tax rate for the three months ended March 31, 2012 as compared to the same period in 2011 is primarily due to a release

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of \$7.7 million of valuation allowance related to certain deferred tax assets of Cunningham, one of our consolidated variable interest entities (VIEs), as the weight of all available evidence now supports full realization of those deferred tax assets.

**LIQUIDITY AND CAPITAL RESOURCES**

As of March 31, 2012, we had \$26.8 million in cash and cash equivalent balances and net working capital of approximately \$3.9 million. Cash generated by our operations and borrowing capacity under the Bank Credit Agreement are used as our primary source of liquidity. As of March 31, 2012, we had \$97.5 million of borrowing capacity available on our Revolving Credit Facility. We anticipate that existing cash and cash equivalents, cash flow from our operations and borrowing capacity under the Revolving Credit Facility and incremental term loan capacity of \$500.0 million, in addition to the \$350.0 million of incremental term loans borrowed in April 2012 to fund the asset acquisition of Freedom, will be sufficient to satisfy our debt service obligations, capital expenditure requirements and working capital needs for the next twelve months. For our long-term liquidity needs, in addition to the sources described above, we may rely upon the issuance of long-term debt, the issuance of equity or other instruments convertible into or exchangeable for equity, or the sale of non-core assets. However, there can be no assurance that additional financing or capital or buyers of our non-core assets will be available, or that the terms of any transactions will be acceptable or advantageous to us.

We drew \$180.0 million of the additional term loans to fund the acquisition of the station assets of Four Points, which closed in January 2012 and drew the remaining \$350.0 million of the additional term loans to fund the acquisition of the station assets of Freedom, which closed on April 1, 2012. As of March 31, 2012, we had no amounts drawn on our revolver.

**Sources and Uses of Cash**

The following table sets forth our cash flows for the periods presented (in millions):

|   | For the Three Months Ended |         |           |        |      |
|---|----------------------------|---------|-----------|--------|------|
|   | 2012                       |         | March 31, |        | 2011 |
| Net cash flows from operating activities                                  | \$                         | 67.5    | \$        | 55.0   |      |
| Cash flows (used in) from investing activities:                           |                            |         |           |        |      |
| Acquisition of property and equipment                                     | \$                         | (6.7)   | \$        | (6.1)  |      |
| Acquisition of television stations  |                            | (205.6) |           |        |      |
| Decrease in restricted cash   |                            | 20.0    |           | 5.1    |      |
| Dividends and distributions from cost method investees                    |                            |         |           | 0.8    |      |
| Purchase of alarm monitoring contracts                                    |                            | (3.0)   |           | (1.8)  |      |
| Investments in equity and cost method investees                           |                            | (5.5)   |           | (8.1)  |      |
| Other   |                            | (0.2)   |           | 1.9    |      |
| Net cash flows used in investing activities                               | \$                         | (201.0) | \$        | (8.2)  |      |
| Cash flows from (used in) financing activities:                           |                            |         |           |        |      |
| Proceeds from notes payable, commercial bank financing and capital leases | \$                         | 184.5   | \$        | 128.3  |      |
|   |                            | (23.5)  |           | (61.7) |      |

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|   |    |       |    |       |
|---|----|-------|----|-------|
| Repayments of notes payable, commercial bank financing and capital leases |    |       |    |       |
| Payments for deferred financing costs                                     |    | (3.5) |    | (4.3) |
| Dividends paid on Class A and Class B Common Stock                        |    | (9.6) |    | (9.6) |
| Other   |    | (0.6) |    | 2.7   |
| Net cash flows from financing activities                                  | \$ | 147.3 | \$ | 55.4  |

### *Operating Activities*

Net cash flows from operating activities increased during the first quarter 2012 compared to the same period in 2011. During 2012, we received more cash receipts from customers, net of cash payments to vendors, in addition to a decrease in cash paid for interest and a decrease in program payments.

We expect program payments and net interest to increase in the second quarter 2012 compared to the first quarter 2012 as a result of closing on the acquisition of the Freedom stations.

### *Investing Activities*

Net cash flows used in investing activities increased during the first quarter 2012 compared to the same period in 2011. This increase is primarily due to \$205.6 million in payments for acquisitions of television stations, as well as an increase in purchases of

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alarm monitoring contracts, partially offset by the use of the restricted cash held in escrow for the Four Points acquisition. This was also slightly offset by a decrease of incremental contributions in our equity and cost method investments.

In second quarter 2012, we anticipate incurring more capital expenditures than incurred in the first quarter 2012.

*Financing Activities*

Net cash flows from financing activities increased in the first quarter 2012 compared to the same period in 2011. In January 2012, we drew \$180.0 million of incremental Term Loan B to fund the asset acquisition of Four Points, which closed in January 2012. In February 2012 and May 2012, our Board of Directors declared a quarterly common stock dividend of \$0.12 per share. Future dividends on our common shares, if any, will be at the discretion of our Board of Directors and will depend on several factors including our results of operations, cash requirements and surplus, financial condition, covenant restrictions and other factors that the Board of Directors may deem relevant.

**CONTRACTUAL CASH OBLIGATIONS**

As of March 31, 2012, our contractual cash obligations increased from what was previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2011 primarily due to changes in our debt. As disclosed above under Liquidity and Capital Resources, during first quarter 2012, we drew \$180.0 million of additional term loans to fund the asset acquisition of Four Points, which closed in January 2012.

Additionally, amounts presented under contractual cash obligations disclosed in our Annual Report on Form 10-K, related to potential obligations due pursuant to the LMA with Freedom, are no longer due because the LMA was terminated April 1, 2012, concurrent with the acquisition of those stations.

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

There have been no material changes from the quantitative and qualitative discussion about market risk previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2011.

**ITEM 4. CONTROLS AND PROCEDURES**

*Evaluation of Disclosure Controls and Procedures and Internal Control over Financial Reporting*



Our management, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the design and effectiveness of our disclosure controls and procedures and our internal control over financial reporting as of March 31, 2012.

The term disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to provide reasonable assurance that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to provide reasonable assurance that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, as appropriate, to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

The term internal control over financial reporting, as defined in Rules 13a-15d-15(f) under the Exchange Act, means a process designed by, or under the supervision of our Chief Executive and Chief Financial Officers and effected by our Board of Directors, management and other personnel, 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 (GAAP) and includes those policies and procedures that:

- pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and disposition of our assets;

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- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP and that our receipts and expenditures are being made in accordance with authorizations of management or our Board of Directors; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material adverse effect on our financial statements.

*Assessment of Effectiveness of Disclosure Controls and Procedures*

Based on the evaluation of our disclosure controls and procedures as of March 31, 2012, our Chief Executive Officer and Chief Financial Officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

*Changes in Internal Control over Financial Reporting*

There have been no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter ended March 31, 2012, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

*Limitations on the Effectiveness of Controls*

Management, including our Chief Executive Officer and Chief Financial Officer, do not expect that our disclosure controls and procedures or our internal control over financial reporting will prevent all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within our company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management's override of the control. The design of any system of controls also is based in part upon 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; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

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**PART II. OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

We are a party to lawsuits and claims from time to time in the ordinary course of business. Actions currently pending are in various stages and no material judgments or decisions have been rendered by hearing boards or courts in connection with such actions. After reviewing developments to date with legal counsel, our management is of the opinion that the outcome of our pending and threatened matters will not have a material adverse effect on our consolidated balance sheets, consolidated statements of operations or consolidated statements of cash flows.

**ITEM 1A. RISK FACTORS**

There have been no material changes to the Risk Factors contained in our Annual Report on Form 10-K for the year ended December 31, 2011.

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

None.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

**ITEM 4. MINE SAFETY DISCLOSURES**

None.

**ITEM 5. OTHER INFORMATION**

None.

Table of Contents**ITEM 6. EXHIBITS**

| <b>Exhibit<br/>Number</b> | <b>Description</b>  |
|---------------------------|---|
| 10.1                      | Stock Appreciation Right Agreement between Sinclair Broadcast Group, Inc., and David D. Smith dated March 9, 2012.  |
| 31.1                      | Certification by David D. Smith, as Chairman and Chief Executive Officer of Sinclair Broadcast Group, Inc., pursuant to Rule 13a-14(a) of the Exchange Act (15 U.S.C. § 7241).  |
| 31.2                      | Certification by David B. Amy, as Chief Financial Officer of Sinclair Broadcast Group, Inc., pursuant to Rule 13a-14(a) of the Exchange Act (15 U.S.C. § 7241).   |
| 32.1                      | Certification by David D. Smith, as Chairman and Chief Executive Officer of Sinclair Broadcast Group, Inc., pursuant to Rule 13a-14(b) of the Exchange Act and § 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C § 1350). |
| 32.2                      | Certification by David B. Amy, as Chief Financial Officer of Sinclair Broadcast Group, Inc., pursuant to Rule 13a-14(b) of the Exchange Act and § 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C § 1350).                |
| 101.INS*                  | XBRL Instance Document  |
| 101.SCH*                  | XBRL Taxonomy Extension Schema  |
| 101.CAL*                  | XBRL Taxonomy Extension Calculation Linkbase  |
| 101.LAB*                  | XBRL Taxonomy Extension Label Linkbase  |
| 101.PRE*                  | XBRL Taxonomy Extension Presentation Linkbase   |
| 101.DEF*                  | XBRL Taxonomy Extension Definition Linkbase   |

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\* Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933 or Section 18 of the Securities Exchange Act of 1934 and otherwise are not subject to liability.

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**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report on Form 10-Q to be signed on its behalf by the undersigned thereunto duly authorized on the 9th day of May 2012.

SINCLAIR BROADCAST GROUP, INC.

By: */s/ David R. Bochenek*  
David R. Bochenek  
Vice President/Chief Accounting Officer  
(Authorized Officer and Chief Accounting Officer)

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