SINCLAIR BROADCAST GROUP INC
Form 10-Q
May 06, 2011
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2011

OR

o 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	**52-1494660**
(State or other jurisdiction of Incorporation or organization)	(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 x No o

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 o No o

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 o	Accelerated filer x
Non-accelerated filer o	Smaller reporting company o

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

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

Title of each class	**Number of shares outstanding as of April 29, 2011**
Class A Common Stock	52,021,003
Class B Common Stock	28,933,859

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SINCLAIR BROADCAST GROUP, INC.

FORM 10-Q

FOR THE QUARTER ENDED MARCH 31, 2011

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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, 2011	As of December 31, 2010
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 123,367	$ 21,695
Current portion of restricted cash		5,058
Accounts receivable, net of allowance for doubtful accounts of $3,082 and $3,216, respectively	113,303	120,977
Affiliate receivable	60	88
Current portion of program contract costs	28,381	37,000
Prepaid expenses and other current assets	6,086	5,996
Deferred barter costs	3,718	3,156
Assets held for sale	36,797	35,067
Deferred tax assets	9,658	9,658
Total current assets	321,370	238,695
PROGRAM CONTRACT COSTS, less current portion	7,988	8,729
PROPERTY AND EQUIPMENT, net	270,786	272,221
RESTRICTED CASH, less current portion	223	223
GOODWILL	659,605	659,605
BROADCAST LICENSES	47,002	47,375
DEFINITE-LIVED INTANGIBLE ASSETS, net	146,562	150,738
OTHER ASSETS	117,654	108,338
Total assets	$ 1,571,190	$ 1,485,924
LIABILITIES AND EQUITY (DEFICIT)		
CURRENT LIABILITIES:		
Accounts payable	$ 2,340	$ 5,807
Accrued liabilities	81,751	64,645
Income taxes payable	1,884	298
Current portion of notes payable, capital leases and commercial bank financing	87,718	19,556
Current portion of notes and capital leases payable to affiliates	3,083	3,196
Current portion of program contracts payable	55,156	68,301
Deferred barter revenues	3,317	2,522
Liabilities held for sale	25,753	24,660
Total current liabilities	261,002	188,985
LONG-TERM LIABILITIES:		
Notes payable, capital leases and commercial bank financing, less current portion	1,147,186	1,148,673
Notes payable and capital leases to affiliates, less current portion	18,834	19,573
Program contracts payable, less current portion	27,226	29,593

Deferred tax liabilities		216,248		210,335
Other long-term liabilities		45,273		45,847
Total liabilities		1,715,769		1,643,006
EQUITY (DEFICIT):				
SINCLAIR BROADCAST GROUP SHAREHOLDERS EQUITY (DEFICIT):				
Class A Common Stock, $.01 par value, 500,000,000 shares authorized, 51,965,487 and 50,284,052 shares issued and outstanding, respectively		520		503
Class B Common Stock, $.01 par value, 140,000,000 shares authorized, 28,933,859 and 30,083,819 shares issued and outstanding, respectively, convertible into Class A Common Stock		289		301
Additional paid-in capital		616,600		609,640
Accumulated deficit		(766,265)		(771,953)
Accumulated other comprehensive loss		(3,873)		(3,914)
Total Sinclair Broadcast Group shareholders deficit		(152,729)		(165,423)
Noncontrolling interests		8,150		8,341
Total deficit		(144,579)		(157,082)
Total liabilities and equity (deficit)	$	1,571,190	$	1,485,924

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

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SINCLAIR BROADCAST GROUP, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data) (Unaudited)

	Three Months Ended March 31, 2011		Three Months Ended March 31, 2010	
REVENUES:				
Station broadcast revenues, net of agency commissions	$	155,859	$	147,922
Revenues realized from station barter arrangements		17,222		14,776
Other operating divisions revenues		6,406		4,767
Total revenues		179,487		167,465
OPERATING EXPENSES:				
Station production expenses		42,345		35,918
Station selling, general and administrative expenses		30,562		30,642
Expenses recognized from station barter arrangements		15,727		13,231
Amortization of program contract costs and net realizable value adjustments		12,618		15,914
Other operating divisions expenses		6,503		5,676
Depreciation of property and equipment		8,058		9,621
Corporate general and administrative expenses		8,664		6,577
Amortization of definite-lived intangible assets		4,550		4,259
Total operating expenses		129,027		121,838
Operating income		50,460		45,627
OTHER INCOME (EXPENSE):				
Interest expense and amortization of debt discount and deferred financing costs		(28,880)		(28,763)
Loss from extinguishment of debt		(924)		(289)
Income from equity and cost method investments		11		543
Gain on insurance settlement		1,723		
Other income, net		469		644
Total other expense		(27,601)		(27,865)
Income from continuing operations before income taxes		22,859		17,762
INCOME TAX PROVISION		(8,025)		(6,949)
Income from continuing operations		14,834		10,813
DISCONTINUED OPERATIONS:				
Income from discontinued operations, includes income tax provision of $332 and $204, respectively		293		181
NET INCOME		15,127		10,994
Net loss attributable to the noncontrolling interests		152		526
NET INCOME ATTRIBUTABLE TO SINCLAIR BROADCAST GROUP	$	15,279	$	11,520
Dividends declared per share	$	0.12	$	
BASIC AND DILUTED EARNINGS PER COMMON SHARE ATTRIBUTABLE TO SINCLAIR BROADCAST GROUP:				
Earnings per share from continuing operations	$	0.19	$	0.14
Earnings per share from discontinued operations	$		$	
Earnings per share	$	0.19	$	0.14
Weighted average common shares outstanding		80,579		79,957
Weighted average common and common equivalent shares outstanding		80,836		79,957
AMOUNTS ATTRIBUTABLE TO SINCLAIR BROADCAST GROUP COMMON SHAREHOLDERS:				
Income from continuing operations, net of tax	$	15,137	$	11,479
Income from discontinued operations, net of tax		142		41

Net income	$	15,279	$	11,520

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, 2011

(In thousands) (Unaudited)

	Sinclair Broadcast Group Shareholders						
	Class A Common Stock	Class B Common Stock	Additional Paid-In Capital	Accumulated Deficit	Other Comprehensive Loss	Noncontrolling Interests	Total Equity (Deficit)
BALANCE, December 31, 2010	$ 503	$ 301	$ 609,640	$ (771,953)	$ (3,914)	$ 8,341	$ (157,082)
Dividends declared on Class A and Class B Common Stock				(9,591)			(9,591)
Class A Common Stock issued pursuant to employee benefit plans	5		4,520				4,525
Class B Common Stock converted into Class A Common Stock	12	(12)					
Class A Common Stock sold by variable interest entity			1,808				1,808
Tax benefit on share based awards			632				632
Distributions to noncontrolling interest						(39)	(39)
Amortization of net periodic pension benefit costs, net of taxes					41		41
Net income (loss)				15,279		(152)	15,127
BALANCE, March 31, 2011	$ 520	$ 289	$ 616,600	$ (766,265)	$ (3,873)	$ 8,150	$ (144,579)

SINCLAIR BROADCAST GROUP, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands) (Unaudited)

	Three months ended March 31,	
	2011	2010
Net income	$ 15,127	$ 10,994
Amortization of net periodic pension benefit costs, net of taxes	41	72
Comprehensive income	15,168	11,066
Comprehensive loss attributable to the noncontrolling interests	152	526
Comprehensive income attributable to Sinclair Broadcast Group	$ 15,320	$ 11,592

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

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SINCLAIR BROADCAST GROUP, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands) (Unaudited)

	Three Months Ended March 31, 2011	2010
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES:		
Net income	$ 15,127	$ 10,994
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation of property and equipment	8,125	9,691
Recognition of deferred revenue	(3,728)	(3,867)
Amortization of definite-lived intangible and other assets	5,195	4,717
Amortization of program contract costs and net realizable value adjustments	12,618	15,914
Deferred tax provision	5,918	6,682
Change in assets and liabilities:		
Decrease in accounts receivable, net	7,579	5,392
Decrease in income taxes receivable		179
(Increase) decrease in prepaid expenses and other current assets	(139)	672
Increase in other assets	(531)	(841)
Increase in accounts payable and accrued liabilities	17,358	10,845
Increase in income taxes payable	2,218	
Increase (decrease) in other long-term liabilities	40	(169)
Payments on program contracts payable	(18,771)	(27,399)
Other, net	3,487	3,140
Net cash flows from operating activities	54,496	35,950
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES:		
Acquisition of property and equipment	(6,085)	(1,759)
Purchase of alarm monitoring contracts	(1,755)	(1,199)
Decrease in restricted cash	5,058	26,556
Dividends and distributions from equity and cost method investees	832	41
Investments in equity and cost method investees	(8,064)	(2,972)
Proceeds from insurance settlement	1,736	
Proceeds from the sale of assets	26	
Loans to affiliates	(61)	(33)
Proceeds from loans to affiliates	89	46
Net cash flows (used in) from investing activities	(8,224)	20,680
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES:		
Proceeds from notes payable, commercial bank financing and capital leases	128,333	4,845
Repayments of notes payable, commercial bank financing and capital leases	(61,714)	(30,427)
Proceeds from exercise of stock options, including excess tax benefits of share based payments of $0.6 million and $0 million, respectively	1,737	
Dividends paid on Class A and Class B Common Stock	(9,591)	
Payments for deferred financing costs	(4,282)	(1,221)
Proceeds from Class A Common Stock sold by variable interest entity	1,808	
Noncontrolling interests distributions	(39)	
Repayments of notes and capital leases to affiliates	(852)	(717)
Net cash flows from (used in) financing activities	55,400	(27,520)
NET INCREASE IN CASH AND CASH EQUIVALENTS	101,672	29,110
CASH AND CASH EQUIVALENTS, beginning of period	21,695	23,224
CASH AND CASH EQUIVALENTS, end of period	$ 123,367	$ 52,334

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 variable interest entities (VIEs) for which we are the primary beneficiary. Noncontrolling interest 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.

Discontinued Operations

It is our intent to divest Alarm Funding Associates, LLC (Alarm Funding). In accordance with the Financial Accounting Standards Board (FASB), we reported the financial position and results of operations of Alarm Funding as assets and liabilities held for sale in the accompanying consolidated balance sheets and income from discontinued operations in the consolidated statements of operations. Discontinued operations have not been segregated in the consolidated statements of cash flows; therefore, amounts for certain captions will not agree with the accompanying consolidated balance sheets and consolidated statements of operations. The operating results of Alarm Funding are not included in our consolidated results of operations from continuing operations for the three months ended March 31, 2011 and 2010.

Interim Financial Statements

The consolidated financial statements for the three months ended March 31, 2011 and 2010 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 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, 2010 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 the VIE debt of Cunningham Broadcasting Corporation (Cunningham) contains cross-default provisions under our senior secured credit facility (Bank Credit Agreement). See *Note 5, Related Person Transactions* for more information.

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, 2011. 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 FCC license and certain other assets used to operate the station (License Assets). Our applications to acquire the Federal Communications Commission (FCC) licenses are pending approval. We have determined that the Cunningham stations are VIEs and that based on the terms of the agreements, 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 5, Related Person Transactions* for more information on our arrangements with Cunningham. Included in the accompanying consolidated statements of operations for the three months ended March 31, 2011 and 2010 are net revenues of $23.3 million and $22.0 million, respectively, that relate to LMAs with Cunningham.

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We have outsourcing agreements with other license owners, which we provide certain non-programming related sales, operational and administrative services. We pay a fee to the license owner 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 our LMAs, we have determined that the outsourced license station assets are VIEs and we are the primary beneficiary.

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 were as follows (in thousands):

	As of March 31, 2011	As of December 31, 2010
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 6,996	$ 5,319
Income taxes receivable	6	
Current portion of program contract costs	379	480
Prepaid expenses and other current assets	124	105
Total current asset	7,505	5,904
PROGRAM CONTRACT COSTS, less current portion	428	491
PROPERTY AND EQUIPMENT, net	7,269	7,461
GOODWILL	6,357	6,357
BROADCAST LICENSES	4,208	4,183
DEFINITE-LIVED INTANGIBLE ASSETS, net	6,851	6,959
OTHER ASSETS	909	914
Total assets	$ 33,527	$ 32,269
LIABILITIES		
CURRENT LIABILITIES:		
Accounts payable	$ 37	$ 37
Accrued liabilities	350	773
Income taxes payable		44
Current portion of notes payable, capital leases and commercial bank financing	11,060	11,056
Current portion of program contracts payable	544	649
Total current liabilities	11,991	12,559
LONG-TERM LIABILITIES:		
Notes payable, capital leases and commercial bank financing, less current portion	10,718	13,484
Program contracts payable, less current portion	131	190
Total liabilities	$ 22,840	$ 26,233

The amounts above represent the consolidated assets and liabilities of the VIEs related to our LMA and outsourcing agreements and have been aggregated as they all relate to our broadcast business. In addition the risk and reward characteristics of the VIEs are similar.

We consolidate the assets and liabilities of one real estate entity pursuant to guidance based on voting-interests. 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 allow us to control the entity, and therefore, we are not considered the primary beneficiary of the VIE. 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 as of March 31, 2011 and December 31, 2010 are as follows (in thousands):

	As of March 31, 2011		As of December 31, 2010	
	Carrying amount	**Maximum exposure**	**Carrying amount**	**Maximum exposure**
Investments in real estate ventures	$ 8,085	$ 8,085	$ 7,769	$ 7,769
Investments in investment companies	26,432	26,432	24,872	24,872
Total	$ 34,517	$ 34,517	$ 32,641	$ 32,641

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 less than $0.1 million and $0.9 million in the quarters ended March 31, 2011 and 2010, respectively.

Our maximum exposure is equal to the carrying value of our investments. As of March 31, 2011 and December 31, 2010, our unfunded commitments totaled $12.9 million and $14.9 million, respectively.

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Recent Accounting Pronouncements

In December 2010, the FASB issued amended guidance with respect to goodwill impairment. The amended guidance requires that step two of the goodwill impairment test be performed if the carrying amount of a reporting unit is zero or negative and it is more likely than not that a goodwill impairment exists based on any adverse qualitative factors including an evaluation of the triggering circumstances noted in the guidance. The change is effective for fiscal years and interim changes within those years beginning after December 15, 2010. We do not believe that this guidance will have a material impact on our consolidated financial statements.

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

In October 2009, we established a cash collateral account with the proceeds from the sale of 9.25% Senior Secured Second Lien Notes due 2017 (the 9.25% Notes). The cash collateral account restricted the use of cash therein to repurchase the 3.0% Convertible Senior Notes due 2027 (the 3.0% Notes) and our 4.875% Convertible Senior Notes due 2018 (the 4.875% Notes) upon, or prior to, the expiration of the put periods for such notes in May 2010 and January 2011, respectively. Upon expiration of the put period for the 4.875% Notes in January 2011, the unused cash was used to reduce our overall debt balance pursuant to our Bank Credit Agreement. During 2010, we used $53.6 million of restricted cash to redeem the 3.0% and 4.875% Notes. As of December 31, 2010, all of the restricted cash classified as current related to the 4.875% Notes January 2011 put option. As of March 31, 2011, we had no restricted cash classified as current.

Additionally, under the terms of certain lease agreements, as of March 31, 2011 and December 31, 2010, we were required to hold $0.2 million of restricted cash related to the removal of analog equipment from some of our leased towers.

Dividends

In February 2011, our Board of Directors reinstated our dividend policy, declaring a quarterly common stock dividend of $0.12 per share.

Revenue Recognition

In first quarter 2011, we adopted the Emerging Issue Task Force s amended guidance on accounting for revenue arrangements with multiple deliverables. The amended guidance clarifies that each deliverable within our multiple-deliverable revenue arrangements is accounted for as a separate unit of accounting if the delivered item or items have value to the client on a standalone basis and for an arrangement that includes a general right of return relative to the delivered item(s), delivery or performance of the undelivered item(s) is considered probable and substantially in the control of the company. The guidance requires us to determine an estimated selling price (ESP) for all deliverables within an arrangement if vendor-specific objective evidence (VSOE) or third-party evidence does not exist. Application of this guidance has not changed the allocation of the arrangement revenue to the elements in our multiple-deliverable arrangements.

We enter into multiple-deliverable revenue arrangements with multi-channel video programming distributors (MVPD s) that may include a combination of retransmission consent fees, advertising, and other marketing elements. We have determined that the retransmission consent fees and advertising elements have value on a standalone basis. The other marketing elements are not valued on a stand alone basis because they are immaterial to the overall arrangement. We include the value of other marketing elements with the retransmission consent fee element.

Due to the complexities and uniqueness of each arrangement, we have determined that our ESP for the retransmission consent fee element is based upon the market, the MVPD, the network affiliation, the number of subscribers, the length of the contract and other factors. We recognize the revenue applicable to the retransmission consent element of the arrangement ratably over the life of the agreement which is representative of the delivery of our television broadcast signal. Each arrangement s life varies, typically ranging one to five years in length.

The advertising element of our multiple-deliverable arrangements is recognized in the period during which the time spots are aired. The advertising revenue is valued using VSOE which is calculated using the average selling unit rate for the advertising spot in which the commercial aired.

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Our arrangements generally do not include any performance, cancellation, or refund provisions. Under certain agreements, the counterparty may terminate the agreement if particular actions occur such as the transmission failure of our broadcast signal for a certain period of time.

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, 2011 and 2010, 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.

Reclassifications

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

2. COMMITMENTS AND CONTINGENCIES:

Litigation

We are party to lawsuits and claims from time to time in the ordinary course of business. Actions currently pending are in various preliminary stages and no 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.

Various parties have filed petitions to deny or informal objections against our applications for the following stations license renewals: KGAN, Cedar Rapids, Iowa; WTTO, Birmingham, Alabama; WBFF, Baltimore, Maryland; WVAH, Charleston, West Virginia; WTTE, Columbus, Ohio; WRGT, Dayton, Ohio; 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 Springfield/Champaign, Illinois and WCGV-TV Milwaukee, Wisconsin. The FCC is in the process of considering the renewal applications and we believe the petitions have no merit.

3. NOTES PAYABLE AND COMMERCIAL BANK FINANCING

Bank Credit Agreement

On January 15, 2011, the put right period for the 4.875% Notes expired and no holders exercised their put rights. Pursuant to our Bank Credit Agreement the $5.1 million in restricted cash held to pay for the put of any 4.875% Notes was used towards reducing our debt balance in March 2011. On January 15, 2011, the 4.875% Notes cash interest rate of 4.875% changed to 2.0% through maturity with the difference of 2.875% being accrued and then paid at maturity. As of March 31, 2011, the face amount of the outstanding 4.875% Notes was $5.7 million.

On March 15, 2011, we entered into an amendment (the Amendment) of our Bank Credit Agreement. The final terms of the Amendment are as follows:

- A new Term Loan A facility (Term Loan A) of $115.0 million. The Term Loan A bears interest at LIBOR plus 2.25%. The Term Loan A is repayable in quarterly installments, amortizing as follows:

    - 1.875% per quarter commencing March 31, 2012 to December 31, 2012
    - 2.50% per quarter commencing March 31, 2013 to December 31, 2013
    - 3.125% per quarter commencing March 31, 2014 to December 31, 2015
    - remaining unpaid principal due at maturity on March 15, 2016

- We paid down $45.0 million of the outstanding $270.0 million Term Loan B facility (Term Loan B). Interest on the Term Loan B was reduced to LIBOR plus 3.00% with a 1.0% LIBOR floor. Principal will continue to amortize at a rate of $825,000 per quarter through September 30, 2016 ending with a final payment of the remaining unpaid principal due at maturity on October 29, 2016.

- Other amended terms provide us with incremental term loan capacity of $300.0 million and more flexibility to use our cash balances and the revolving credit facility for restricted payments and television acquisitions, including in certain circumstances the ability to make up to $100.0 million in unrestricted annual cash payments including but not limited to dividends and other strategic investments.

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6.0% Convertible Subordinated Debentures due 2012

On April 15, 2011, we completed the redemption of all $70.0 million of the 6.0% Convertible Subordinated Debentures, due 2012 (the 6.0% Notes) at 100% of the face value of such notes. We used the proceeds from our Term Loan A to pay for the redemption.

4. EARNINGS PER SHARE

The following table reconciles income (numerator) and shares (denominator) used in our computations of earnings per share for the three months ended March 31, 2011 and 2010 (in thousands):

	Three Months Ended March 31,			
		2011		**2010**
Income (Numerator)				
Income from continuing operations	$	14,834	$	10,813
Income impact of assumed conversion of the 4.875% Notes, net of taxes		42		
Net loss attributable to noncontrolling interests included in continuing operations		303		666
Numerator for diluted earnings per common share from continuing operations		15,179		11,479
Income from discontinued operations		293		181
Net income attributable to noncontrolling interests from discontinued operations		(151)		(140)
Numerator for diluted earnings attributable to Sinclair Broadcast Group	$	15,321	$	11,520
Shares (Denominator)				
Weighted-average common shares outstanding		80,579		79,957
Dilutive effect of outstanding stock options		3		
Dilutive effect of 4.875% Notes		254		
Weighted-average common and common equivalent shares outstanding		80,836		79,957

Potentially dilutive securities representing 4.0 million and 8.9 million shares of common stock for the three months ended March 31, 2011 and 2010, 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 partial redemption of our 6.0% Notes and the inclusion of outstanding stock options and 4.875% Notes in dilutive earnings per share. 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.

5. 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. Since the end of our last fiscal year, 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 and $1.2 million for the three months ended March 31, 2011 and 2010.

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 $0.8 million and $0.4 million for the three months ended March 31, 2011 and 2010, respectively. We received $0.1 million for the three months ended March 31, 2010, from Bay TV for certain equipment leases, which expired in 2010.

Cunningham Broadcasting Corporation. We have options from trusts established by Carolyn C. Smith, the mother 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

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assets of Cunningham s individual subsidiaries. As of March 31, 2011, Cunningham is the owner-operator and FCC licensee of: WNUV-TV in Baltimore, Maryland; WRGT-TV in Dayton, Ohio; WVAH-TV in Charleston, West Virginia; WTAT-TV in Charleston, South Carolina; WMYA-TV in Anderson, South Carolina; WTTE-TV in Columbus, Ohio; and WDBB-TV in Birmingham, Alabama.

In addition to the option agreement, we provide programming under LMA s to Cunningham for airing on WNUV-TV, WRGT-TV, WVAH-TV, WTAT-TV, WMYA-TV, WTTE-TV and WDBB-TV. In February 2011, Cunningham purchased the FCC license for WDBB-TV. We have an LMA with WDBB-TV, which our counterparty assigned to Cunningham in conjunction with Cunningham s purchase.

We made payments to Cunningham under the LMAs and other agreements of $4.2 million and $4.5 million for the three months ended March 31, 2011 and 2010, respectively.

Our Bank Credit Agreement contains certain cross-default provisions with certain material third-party licensees. As of March 31, 2011, Cunningham was the sole material third-party licensee.

Atlantic Automotive Corporation. 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 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 time totaling less than $0.1 million for each of the three months ended March 31, 2011 and 2010. We paid $0.2 million and $0.1 million for vehicles and related vehicle services from Atlantic Automotive during the three months ended March 31, 2011 and 2010, respectively.

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 $0.1 million and $0.2 million to Thomas & Libowitz during the three months ended March 31, 2011 and 2010, respectively.

6. SEGMENT DATA:

We measure segment performance based on operating income (loss). Our broadcast segment includes stations in 35 markets 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. In 2011, we determined that primarily all of the regional security alarm operating and bulk acquisition company results should be accounted for as discontinued operations and therefore are not presented in the tables below for the three months ended March 31, 2011 and 2010. 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 $168.7 million and $163.1 million of intercompany loans between the broadcast segment, operating divisions segment and corporate as of March 31, 2011 and 2010, respectively. We had $4.8 million and $4.7 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, 2011, and 2010, 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 three months ended March 31, 2011 and 2010 (in thousands).

For the three months ended March 31, 2011	**Broadcast**	**Other Operating Divisions**	**Corporate**	**Consolidated**
Revenue	$ 173,081	$ 6,406	$	$ 179,487
Depreciation of property and equipment	7,345	308	405	8,058
Amortization of definite-lived intangible assets and other assets	4,353	197		4,550
Amortization of program contract costs and net realizable value adjustments	12,618			12,618
General and administrative overhead expenses	7,632	282	750	8,664
Operating income (loss)	52,517	(897)	(1,160)	50,460
Interest expense		340	28,540	28,880
Loss from equity and cost method investments		11		11

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For the three months ended March 31, 2010	Broadcast	Other Operating Divisions	Corporate	Consolidated
Revenue	$ 162,698	$ 4,767	$	$ 167,465
Depreciation of property and equipment	8,890	299	432	9,621
Amortization of definite-lived intangible assets and other assets	4,055	204		4,259
Amortization of program contract costs and net realizable value adjustments	15,914			15,914
General and administrative overhead expenses	5,880	211	486	6,577
Operating income (loss)	48,238	(1,689)	(922)	45,627
Interest expense		333	28,430	28,763
Income from equity and cost method investments		543		543

7. FAIR VALUE MEASUREMENTS:

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.

The carrying value and fair value of our notes, debentures, program contracts payable and non-cancelable commitments as of March 31, 2011 and December 31, 2010 were as follows (in thousands):

	March 31, 2011		December 31, 2010	
	Carrying Value	Fair Value	Carrying Value	Fair Value
6.0% Convertible Subordinated Debentures due 2012 (a)	$ 66,559	$ 70,035	$ 66,019	$ 70,385
4.875% Convertible Senior Notes due 2018	5,719	5,719	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	246,571	267,187	246,493	258,750
9.25% Senior Secured Second Lien Notes due 2017	488,040	560,715	487,724	544,690

Bank Credit Agreement, Term Loan A	115,000	114,713		
Bank Credit Agreement, Term Loan B	218,794	224,094	264,352	273,240
Cunningham Bank Credit Facility	19,192	19,548	21,933	22,452
Active program contracts payable	82,382	78,937	97,894	89,145
Future program liabilities (b)	121,399	104,722	88,510	72,823

(a) On April 15, 2011, we completed the redemption of all $70.0 million of these debentures at face value. We used the proceeds from the Term Loan A issuance to pay for the redemption.

(b) 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 fair value of our 8.375% Senior Notes due 2018 (the 8.375% Notes) and 9.25% Notes is determined using quoted prices. The carrying value of our 3.0% and 4.875% Notes approximates their fair value. The face value of our 6.0% Notes approximates their fair value. Our Term Loan A, Term Loan B and Cunningham s bank credit facility are fair valued using Level 2 hierarchy inputs described above.

Our estimates 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.

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8. 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 and was the primary obligor under the 8.0% Senior Subordinated Notes due 2012 (the 8.0% Notes) until they were fully redeemed in 2010. Our Class A Common Stock, Class B Common Stock, the 6.0% Notes, the 4.875% Notes and the 3.0% Notes, as of March 31, 2011 were obligations or securities of SBG and not obligations or securities of STG. SBG is a guarantor under the Bank Credit Agreement, the 9.25% Notes and the 8.375% Notes. As of March 31, 2011 our consolidated total debt of $1,256.8 million included $1,119.7 million of debt related to STG and its subsidiaries of which SBG guaranteed $1,068.4 million.

SBG, KDSM, LLC, a wholly-owned subsidiary of SBG, and STG s wholly-owned subsidiaries (guarantor subsidiaries), have fully and unconditionally guaranteed 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 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.

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CONDENSED CONSOLIDATING BALANCE SHEET

AS OF MARCH 31, 2011

(in thousands) (unaudited)

	Sinclair Broadcast Group, Inc.	Sinclair Television Group, Inc.	Guarantor Subsidiaries and KDSM, LLC	Non-Guarantor Subsidiaries	Eliminations	Sinclair Consolidated
Cash	$	$ 108,911	$ 265	$ 14,191	$	$ 123,367
Accounts and other receivables	19	32	109,287	4,157	(132)	113,363
Other current assets	928	5,714	38,741	2,745	(285)	47,843
Assets held for sale				36,797		36,797
Total current assets	947	114,657	148,293	57,890	(417)	321,370
Property and equipment, net	9,452	7,090	163,606	97,361	(6,723)	270,786
Investment in consolidated subsidiaries		624,245			(624,245)	
Restricted cash long-term			223			223
Other long-term assets	82,635	330,647	9,552	96,947	(394,139)	125,642
Total other long-term assets	82,635	954,892	9,775	96,947	(1,018,384)	125,865
Acquired intangible assets			828,364	30,387	(5,582)	853,169
Total assets	$ 93,034	$ 1,076,639	$ 1,150,038	$ 282,585	$ (1,031,106)	$ 1,571,190
Accounts payable and accrued liabilities	$ 396	$ 37,037	$ 44,205	$ 4,090	$ (1,637)	$ 84,091
Current portion of long-term debt	66,936	5,456	457	14,869		87,718
Current portion of affiliate long-term debt	901		2,182	44	(44)	3,083
Other current liabilities			59,819	538		60,357
Liabilities held for sale				25,753		25,753
Total current liabilities	68,233	42,493	106,663	45,294	(1,681)	261,002
Long-term debt	13,005	1,062,949	37,957	33,275		1,147,186
Affiliate long-term debt	8,161		10,673	230,441	(230,441)	18,834
Dividends in excess of investment in consolidated subsidiaries	75,722				(75,722)	
Other liabilities	80,642	1,671	371,039	49,860	(214,465)	288,747
Total liabilities	245,763	1,107,113	526,332	358,870	(522,309)	1,715,769
Common stock	809		10		(10)	809
Additional paid-in capital	616,600	114,321	387,585	47,373	(549,279)	616,600
Accumulated (deficit) earnings	(766,265)	(142,427)	237,869	(124,656)	29,214	(766,265)
Accumulated other comprehensive (loss) income	(3,873)	(2,368)	(1,758)	998	3,128	(3,873)
Total Sinclair Broadcast Group (deficit) equity	(152,729)	(30,474)	623,706	(76,285)	(516,947)	(152,729)
Noncontrolling interests in consolidated subsidiaries					8,150	8,150

Total liabilities and equity (deficit)	$ 93,034	$ 1,076,639	$ 1,150,038	$ 282,585	$ (1,031,106)	$ 1,571,190

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CONDENSED CONSOLIDATING BALANCE SHEET

AS OF DECEMBER 31, 2010

(in thousands)

	Sinclair Broadcast Group, Inc.	**Sinclair Television Group, Inc.**	**Guarantor Subsidiaries and KDSM, LLC**	**Non-Guarantor Subsidiaries**	**Eliminations**	**Sinclair Consolidated**
Cash	$	$ 5,071	$ 1,022	$ 15,602	$	$ 21,695
Restricted cash - current		5,058				5,058
Accounts and other receivables	43	99	115,615	5,459	(151)	121,065
Other current assets	1,477	5,492	46,231	2,894	(284)	55,810
Assets held for Sale				35,067		35,067
Total current assets	1,520	15,720	162,868	59,022	(435)	238,695
Property and equipment, net	9,856	2,669	169,260	97,209	(6,773)	272,221
Investment in consolidated subsidiaries		609,737			(609,737)	
Restricted cash long term			223			223
Other long-term assets	79,184	318,137	10,207	89,878	(380,339)	117,067
Total other long-term assets	79,184	927,874	10,430	89,878	(990,076)	117,290
Acquired intangible assets			829,884	30,368	(2,534)	857,718
Total assets	$ 90,560	$ 946,263	$ 1,172,442	$ 276,477	$ (999,818)	$ 1,485,924
Accounts payable and accrued liabilities	$ 512	$ 19,733	$ 46,734	$ 4,539	$ (1,066)	$ 70,452
Current portion of long-term debt	363	3,300	391	15,502		19,556
Current portion of affiliate long-term debt	870		2,326	92	(92)	3,196
Other current liabilities			70,428	693		71,121
Liabilities held for sale				24,729	(69)	24,660
Total current liabilities	1,745	23,033	119,879	45,555	(1,227)	188,985
Long-term debt	79,091	995,269	38,098	36,215		1,148,673
Affiliate long-term debt	8,403		11,170	224,159	(224,159)	19,573
Dividends in excess of investment in consolidated subsidiaries	122,994				(122,994)	
Other liabilities	43,750	1,709	394,192	47,132	(201,008)	285,775
Total liabilities	255,983	1,020,011	563,339	353,061	(549,388)	1,643,006
Common stock	804		10	282	(292)	804
Additional paid-in capital	609,640	123,695	445,577	78,637	(647,909)	609,640
Accumulated (deficit) earnings	(771,953)	(195,049)	165,316	(154,656)	184,389	(771,953)
Accumulated other comprehensive (loss) income	(3,914)	(2,394)	(1,800)	(847)	5,041	(3,914)
Total Sinclair Broadcast Group shareholders (deficit) equity	(165,423)	(73,748)	609,103	(76,584)	(458,771)	(165,423)
					8,341	8,341

Noncontrolling interest in consolidated subsidiaries						
Total liabilities and equity (deficit)	$ 90,560	$ 946,263	$ 1,172,442	$ 276,477	$ (999,818)	$ 1,485,924

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CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS

FOR THE THREE MONTHS ENDED MARCH 31, 2011

(in thousands) (unaudited)

	Sinclair Broadcast Group, Inc.	Sinclair Television Group, Inc.	Guarantor Subsidiaries and KDSM, LLC	Non-Guarantor Subsidiaries	Eliminations	Sinclair Consolidated
Net revenue	$	$	$ 173,357	$ 8,376	$ (2,246)	$ 179,487
Program and production		307	43,984	94	(2,040)	42,345
Selling, general and administrative	754	7,628	30,111	829	(96)	39,226
Depreciation, amortization and other operating expenses	405	135	39,468	7,416	32	47,456
Total operating expenses	1,159	8,070	113,563	8,339	(2,104)	129,027
Operating (loss) income	(1,159)	(8,070)	59,794	37	(142)	50,460
Equity in earnings of consolidated subsidiaries	17,402	35,323			(52,725)	
Interest expense	(1,958					