SINCLAIR BROADCAST GROUP INC
Form 10-Q
May 06, 2010
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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, 2010

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 30, 2010**
Class A Common Stock	48,805,309

Class B Common Stock	31,497,859

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SINCLAIR BROADCAST GROUP, INC.

FORM 10-Q

FOR THE QUARTER ENDED MARCH 31, 2010

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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, 2010	As of December 31, 2009
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 52,334	$ 23,224
Current portion of restricted cash	37,843	27,667
Accounts receivable, net of allowance for doubtful accounts of $2,854 and $2,932, respectively	102,762	106,792
Affiliate receivable	56	69
Current portion of program contract costs	35,857	43,741
Income taxes receivable	7,894	8,073
Prepaid expenses and other current assets	5,555	6,130
Deferred barter costs	3,280	2,825
Deferred tax assets	7,277	7,277
Total current assets	252,858	225,798
PROGRAM CONTRACT COSTS, less current portion	15,820	16,417
PROPERTY AND EQUIPMENT, net	286,565	296,227
RESTRICTED CASH, less current portion	484	37,216
GOODWILL	660,017	660,017
BROADCAST LICENSES	51,988	51,988
DEFINITE-LIVED INTANGIBLE ASSETS, net	189,521	193,405
OTHER ASSETS	119,301	116,653
Total assets	$ 1,576,554	$ 1,597,721
LIABILITIES AND EQUITY (DEFICIT)		
CURRENT LIABILITIES:		
Accounts payable	$ 3,155	$ 3,746
Accrued liabilities	67,211	60,523
Current portion of notes payable, capital leases and commercial bank financing	51,355	40,632
Current portion of notes and capital leases payable to affiliates	3,070	2,995
Current portion of program contracts payable	76,684	91,995
Deferred barter revenues	3,305	2,810
Total current liabilities	204,780	202,701
LONG-TERM LIABILITIES:		
Notes payable, capital leases and commercial bank financing, less current portion	1,261,569	1,297,964
Notes payable and capital leases to affiliates, less current portion	22,105	24,717
Program contracts payable, less current portion	43,804	48,448
Deferred tax liabilities	183,950	177,219
Other long-term liabilities	48,113	48,894

Total liabilities	1,764,321	1,799,943
EQUITY (DEFICIT):		
SINCLAIR BROADCAST GROUP SHAREHOLDERS EQUITY (DEFICIT):		
Class A Common Stock, $.01 par value, 500,000,000 shares authorized, 48,787,139 and 47,375,437 shares issued and outstanding, respectively	488	474
Class B Common Stock, $.01 par value, 140,000,000 shares authorized, 31,497,859 and 32,453,859 shares issued and outstanding, respectively, convertible into Class A Common Stock	315	325
Additional paid-in capital	608,725	605,340
Accumulated deficit	(802,356)	(813,876)
Other comprehensive loss	(4,141)	(4,213)
Total Sinclair Broadcast Group shareholders deficit	(196,969)	(211,950)
Noncontrolling interests	9,202	9,728
Total deficit	(187,767)	(202,222)
Total liabilities and equity (deficit)	$ 1,576,554	$ 1,597,721

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, 2010	2009
REVENUES:		
Station broadcast revenues, net of agency commissions	$ 147,922	$ 131,305
Revenues realized from station barter arrangements	14,776	11,898
Other operating divisions revenues	6,930	11,535
Total revenues	169,628	154,738
OPERATING EXPENSES:		
Station production expenses	35,918	34,943
Station selling, general and administrative expenses	30,642	30,910
Expenses recognized from station barter arrangements	13,231	10,228
Amortization of program contract costs and net realizable value adjustments	15,914	20,758
Other operating divisions expenses	6,777	12,251
Depreciation of property and equipment	9,625	11,933
Corporate general and administrative expenses	6,577	6,359
Amortization of definite-lived intangible assets and other assets	4,717	5,201
Gain on asset exchange		(1,236)
Impairment of goodwill, intangible and other assets		130,098
Total operating expenses	123,401	261,445
Operating income (loss)	46,227	(106,707)
OTHER INCOME (EXPENSE):		
Interest expense and amortization of debt discount and deferred financing costs	(28,974)	(18,374)
(Loss) gain from extinguishment of debt	(289)	18,986
Income (loss) from equity and cost method investments	543	(445)
Other income, net	639	701
Total other (expense) income	(28,081)	868
Income (loss) from continuing operations before income taxes	18,146	(105,839)
INCOME TAX (PROVISION) BENEFIT	(7,086)	18,800
Income (loss) from continuing operations	11,060	(87,039)
DISCONTINUED OPERATIONS:		
Loss from discontinued operations, includes income tax provision of $66 and $108, respectively	(66)	(108)
NET INCOME (LOSS)	10,994	(87,147)
Net loss attributable to the noncontrolling interests	526	1,492
NET INCOME (LOSS) ATTRIBUTABLE TO SINCLAIR BROADCAST GROUP	$ 11,520	$ (85,655)
BASIC AND DILUTED EARNINGS (LOSS) PER COMMON SHARE ATTRIBUTABLE TO SINCLAIR BROADCAST GROUP:		
Earnings (loss) per share from continuing operations	$ 0.14	$ (1.06)
Earnings (loss) per share	$ 0.14	$ (1.06)
Weighted average common shares outstanding	79,957	80,815
Weighted average common and common equivalent shares outstanding	79,957	80,815
AMOUNTS ATTRIBUTABLE TO SINCLAIR BROADCAST GROUP COMMON SHAREHOLDERS:		
Income (loss) from continuing operations	$ 11,586	$ (85,547)

Loss from discontinued operations		(66)		(108)
Net income (loss)	$	11,520	$	(85,655)

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, 2010

(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, 2009	$ 474	$ 325	$ 605,340	$ (813,876)	$ (4,213)	$ 9,728	$ (202,222)
Class A Common Stock issued pursuant to employee benefit plans	4		3,385				3,389
Class B Common Stock converted into Class A Common Stock	10	(10)					
Amortization of net periodic pension benefit costs					72		72
Net income (loss)				11,520		(526)	10,994
BALANCE, March 31, 2010	$ 488	$ 315	$ 608,725	$ (802,356)	$ (4,141)	$ 9,202	$ (187,767)

SINCLAIR BROADCAST GROUP, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(In thousands) (Unaudited)

	Three months ended March 31, 2010	2009
Net income (loss)	$ 10,994	$ (87,147)
Amortization of net periodic pension benefit costs	72	53
Comprehensive income (loss)	11,066	(87,094)
Comprehensive loss attributable to the noncontrolling interests	526	1,492
Comprehensive income (loss) attributable to Sinclair Broadcast Group	$ 11,592	$ (85,602)

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, 2010	2009
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES:		
Net income (loss)	$ 10,994	$ (87,147)
Adjustments to reconcile net income (loss) to net cash flows from operating activities:		
Amortization of debt discount, net of debt premium	1,307	2,861
Depreciation of property and equipment	9,691	12,054
Recognition of deferred revenue	(3,867)	(7,176)
Impairment of goodwill, intangible and other assets		130,098
Amortization of definite-lived intangible and other assets	4,717	5,201
Amortization of program contract costs and net realizable value adjustments	15,914	20,758
Stock-based compensation	2,321	289
Loss (gain) on extinguishment of debt, non-cash portion	289	(18,986)
Deferred tax provision (benefit) related to operations	6,682	(18,664)
Change in assets and liabilities:		
Decrease in accounts receivable, net	5,392	16,926
Decrease (increase) in income taxes receivable	179	(34)
Decrease in prepaid expenses and other current assets	672	722
Increase in other assets	(841)	(356)
Increase (decrease) in accounts payable and accrued liabilities	10,845	(8,275)
Decrease in other long-term liabilities	(169)	(769)
Dividends and distributions from equity and cost method investees	21	286
Payments on program contracts payable	(27,399)	(23,656)
Other, net	(798)	(360)
Net cash flows from operating activities	35,950	23,772
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES:		
Acquisition of property and equipment	(1,759)	(2,832)
Purchase of alarm monitoring contracts	(1,199)	(3,221)
Decrease in restricted cash	26,556	
Dividends and distributions from equity and cost method investees	41	1,197
Investments in equity and cost method investees	(2,972)	(4,696)
Proceeds from the sale of assets		28
Loans to affiliates	(33)	(41)
Proceeds from loans to affiliates	46	42
Net cash flows from (used in) investing activities	20,680	(9,523)
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES:		
Proceeds from notes payable, commercial bank financing and capital leases	4,845	89,084
Repayments of notes payable, commercial bank financing and capital leases	(30,427)	(88,580)
Purchase of subsidiary shares from noncontrolling interests		(2,000)
Repurchase of Class A Common Stock		(1,454)
Dividends paid on Class A and Class B Common Stock		(16,038)
Payments for deferred financing costs	(1,221)	(17)
Noncontrolling interests contributions		226
Repayments of notes and capital leases to affiliates	(717)	(708)
Net cash flows used in financing activities	(27,520)	(19,487)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	29,110	(5,238)
CASH AND CASH EQUIVALENTS, beginning of period	23,224	16,470
CASH AND CASH EQUIVALENTS, end of period	$ 52,334	$ 11,232

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 interests represent a minority owner s proportionate share of the equity in certain of our consolidated entities. All significant intercompany transactions and account balances have been eliminated in consolidation.

Interim Financial Statements

The consolidated financial statements for the three months ended March 31, 2010 and 2009 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 presentation 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, 2009 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 June 2009, the Financial Accounting Standards Board (FASB) issued amended guidance on the consolidation of variable interest entities (VIEs). The intent of this guidance is to improve financial reporting by enterprises involved with VIEs and to provide more relevant and reliable information to users of financial statements. The new guidance will require a number of new disclosures and companies are required to perform ongoing reassessments of whether they are the primary beneficiary of a VIE for financial reporting purposes. This guidance is effective as of the beginning of each reporting entity s first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period and for interim and annual reporting periods thereafter.

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 the 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, certain VIE debt contains cross-default provisions under our senior secured credit facility (Bank Credit Agreement). See *Note 4, Related Person Transactions* for more information.

We have a Local Marketing Agreement (LMA) to provide programming, sales and managerial services to Cunningham Broadcasting Corporation (Cunningham), the license owner for six television stations. We pay an LMA fee 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. Our applications to acquire the Federal Communications Commission (FCC) licenses are pending approval. We have determined that the license assets 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 4, Related Person Transactions* for more information on our arrangements with Cunningham.

We have outsourcing agreements with 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. Our applications to acquire these FCC licenses are pending FCC approval. For the same reasons noted above regarding the LMA, we have determined that the license assets are VIEs and we are the primary beneficiary.

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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 were as follows (in thousands):

	As of March 31, 2010	As of December 31, 2009
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 4,444	$ 4,127
Income taxes receivable	30	33
Current portion of program contract costs	420	430
Prepaid expenses and other current assets	176	129
Deferred tax assets	27	27
Total current asset	5,097	4,746
PROGRAM CONTRACT COSTS, less current portion	586	649
PROPERTY AND EQUIPMENT, net	8,043	8,239
GOODWILL	6,357	6,357
BROADCAST LICENSES	4,320	4,320
DEFINITE-LIVED INTANGIBLE ASSETS, net	7,309	7,393
OTHER ASSETS	225	213
Total assets	$ 31,937	$ 31,917
LIABILITIES		
CURRENT LIABILITIES:		
Accounts payable	$ 7	$ 37
Accrued liabilities	544	774
Current portion of notes payable, capital leases and commercial bank financing	11,043	11,039
Current portion of program contracts payable	572	576
Total current liabilities	12,166	12,426
LONG-TERM LIABILITIES:		
Notes payable, capital leases and commercial bank financing, less current portion	21,778	24,540
Program contracts payable, less current portion	350	444
Deferred tax liabilities	218	218
Total liabilities	$ 34,512	$ 37,628

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 and the risk and reward characteristics of the VIEs are similar.

Under the previously applicable accounting guidance for consolidation, we had determined that we had a variable interest in four real estate ventures and that we were the primary beneficiary of those VIEs and should consolidate the assets and liabilities of those entities. However, under the new accounting guidance for consolidation which is effective January 1, 2010, we no longer consider one of these investments to be a VIE since the investment does not meet the VIE criteria under the new accounting guidance. We still consolidate the assets and liabilities of this entity pursuant to other accounting guidance based on voting-interests. Under the new accounting guidance for consolidation, we no longer consider ourselves the primary beneficiary of the other three real estate ventures since as the manager of the venture, the other partner holds the power to direct activities that significantly impact the economic performance of the VIE and can participate in returns that would be considered significant to the VIE. The effect of this change is not material to our consolidated financial statements.

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.

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The carrying amounts of our investments in these VIEs for which we are not the primary beneficiary as of March 31, 2010 and December 31, 2009 are as follows (in thousands):

	As of March 31, 2010		As of December 31, 2009	
	Carrying amount	**Maximum exposure**	**Carrying amount**	**Maximum exposure**
Investments in real estate ventures	$ 8,742	$ 8,742	$ 8,796	$ 8,796
Investments in investment companies	24,087	38,887	21,108	37,908
Total	$ 32,829	$ 47,629	$ 29,904	$ 46,704

The carrying amounts above are included in other assets in the consolidated balance sheets. We recorded income (loss) of $0.9 million and ($0.6) million in the quarters ended March 31, 2010 and 2009, respectively, related to these investments in income (loss) from equity and cost method investments in the consolidated statements of operations.

Our maximum exposure is equal to the carrying value of our investments plus any unfunded commitments. As of March 31, 2010 and December 31, 2009, these outstanding commitments totaled $14.8 million and $16.8 million, respectively.

Recent Accounting Pronouncements

In September 2009, the FASB ratified the Emerging Issues Task Force s amended guidance on accounting for revenue arrangements with multiple deliverables. The amended guidance allows the use of an estimated selling price for the undelivered units of accounting in transactions in which vendor-specific objective evidence (VSOE) or third-party evidence (TPE) does not exist. The amended guidance no longer allows the use of the residual method when allocating arrangement consideration between the delivered and undelivered units of accounting if VSOE and TPE of selling price does not exist for all units of accounting. Entities are required to estimate the selling price of the deliverables, when VSOE and TPE are not available, and then allocate the consideration based on the relative selling prices of the deliverables. This guidance also requires additional disclosures including the amount of revenue recognized each reporting period and the amount of deferred revenue as of the end of each reporting period under this guidance. This guidance is effective for revenue arrangements entered into or materially modified in fiscal years beginning after June 15, 2010 and should be applied on a prospective basis. We have not determined the impact that this guidance will have on our consolidated financial statements.

In January 2010, the FASB amended the guidance on fair value measurements and disclosures to add two new disclosure provisions to the current fair value disclosure guidance, including (1) details of transfers in and out of level 1 and level 2 measurements, and (2) gross presentation of activity within the level 3 roll forward. The guidance also amends two existing fair value disclosure requirements so that entities are required to disclose (1) the valuation techniques and inputs used to develop fair value measurements for assets and liabilities that are measured at fair value on both a recurring basis and nonrecurring basis in periods subsequent to initial recognition and (2) fair value measurement disclosures for each class of assets and liabilities. A class is defined as a subset of assets or liabilities within a line item in the statement of financial position. The guidance is for interim and annual reporting periods beginning after December 15, 2009, except for the changes to the level 3 roll forward which are effective for fiscal years beginning after December 15, 2010. We have added the required disclosures under this guidance to our consolidated financial statements beginning with the first quarter of 2010.

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 and Debt Redemptions

During the first quarter of 2010, we completed tender offers to purchase for cash any and all of the outstanding 3.0% Convertible Senior Notes due 2027 (the 3.0% Notes) and 4.875% Convertible Senior Notes due 2018 (the 4.875% Notes) at 100% of the face value of such notes. We used $26.6 million of restricted cash to pay for such redemptions. We redeemed approximately $12.3 million and $14.3 million of the 3.0% and 4.875% Notes, respectively. As of March 31, 2010, we held $37.8 million in a restricted cash collateral account to be used for the redemption of the remaining $15.4 million aggregate principal amount of 3.0% Notes and $22.7 million aggregate principal amount of 4.875% Notes. Any unused funds with respect to each series of notes held in the cash collateral account will be released to us and used for general corporate purposes after the expiration of the put options in May 2010 for the 3.0% Notes and in January 2011 for the 4.875% Notes. All of the restricted cash classified as current as of March 31, 2010 relates to the May 2010 and January 2011 put options. Additionally, under the terms of certain lease agreements, we are required to hold $0.5 million of restricted cash related to the removal of analog equipment from some of our leased towers.

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Stock-Based Compensation

On March 12, 2010, 300,000 stock-settled appreciation rights (SARs) were granted to David Smith, our President and Chief Executive Officer, pursuant to the 1996 Long-Term Incentive Plan. The SARs have a 10-year term and are fully vested upon grant. The SARs had a grant date fair value of $1.6 million. We valued the SARs using the Black-Scholes model and the following assumptions:

Risk-free interest rate	3.847%
Expected life	10 years
Expected volatility	110.38%
Annual dividend yield	0.0%

We recorded compensation expense of $1.6 million related to this grant in the first quarter 2010. This expense reduces our consolidated income, but has no effect on our consolidated cash flows.

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, 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.

Network Affiliation Agreements

Our ABC network affiliation agreements were scheduled to expire December 31, 2009. We extended these affiliation agreements until March 31, 2010, while we continued negotiations. On March 25, 2010, we agreed to terms on a renewal of the ABC network affiliation agreements, expiring August 31, 2015. Pursuant to the terms we are required to pay an annual license fee to ABC for network programming.

Our FOX affiliation agreements require us to receive FOX s consent prior to entering into retransmission consent agreements that include content provided by FOX. FOX has recently begun conditioning its consent on its affiliates agreeing to pay FOX compensation related to such retransmission consent agreements. Sinclair, and other FOX affiliates, are currently negotiating with FOX on this issue. As of March 31, 2010, the net book value of our FOX network affiliation assets was $32.4 million.

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3. EARNINGS (LOSS) PER SHARE

The following table reconciles income (loss) (numerator) and shares (denominator) used in our computations of earnings (loss) per share for the three months ended March 31, 2010 and 2009 (in thousands):

	Three Months Ended March 31, 2010	2009
Income (Loss) (Numerator)		
Income (loss) from continuing operations	$ 11,060	$ (87,039)
Net loss attributable to noncontrolling interests included in continuing operations	526	1,492
Numerator for diluted earnings (loss) per common share from continuing operations available to common shareholders	11,586	(85,547)
Loss from discontinued operations	(66)	(108)
Numerator for diluted earnings (loss) available to common shareholders	$ 11,520	$ (85,655)
Shares (Denominator)		
Weighted-average common shares outstanding	79,957	80,815
Weighted-average common and common equivalent shares outstanding	79,957	80,815

Potentially dilutive securities representing 8.9 million and 28.3 million for the three months ended March 31, 2010 and 2009, respectively, were excluded from the computation of diluted earnings (loss) per common share for these periods because their effect would have been antidilutive. The net income (loss) 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.

4. 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.

Cunningham Broadcasting Corporation. Concurrently with our initial public offering, we acquired 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. 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; and WTTE-TV in Columbus, Ohio.

We made payments to Cunningham under the LMA agreements of $4.5 million and $1.7 million for the three months ended March 31, 2010 and 2009, respectively.

For the three months ended March 31, 2010, Cunningham s stations provided us with approximately $22.0 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 licensees. As of March 31, 2010, Cunningham was the sole material third-party licensee.

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 some or all of the controlling shareholders). Lease payments made to these entities were $1.2 million for each of the three months ended March 31, 2010 and 2009.

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 $0.4 million and $1.7 million for the three months ended March 31, 2010 and 2009 respectively. We received $0.1 million for each of the three months ended March 31, 2010 and 2009 from Bay TV for certain equipment leases.

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

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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. Our stations in Baltimore, Maryland and Norfolk, Virginia received payments for advertising time totaling less than $0.1 million for each of the three months ended March 31, 2010 and 2009. We paid $0.1 million for vehicles and related vehicle services from Atlantic Automotive during each of the three months ended March 31, 2010 and 2009.

Thomas & Libowitz P.A. Basil A. Thomas, a member of our Board of Directors, is the father of a partner and founder of Thomas & Libowitz, P.A., a law firm providing legal services to us on an ongoing basis. We paid fees of $0.2 million to Thomas & Libowitz during each of the three months ended March 31, 2010 and 2009.

5. 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. 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 $163.1 million and $114.6 million of intercompany loans between the broadcast segment, operating divisions segment and corporate as of March 31, 2010 and 2009, respectively. We had $4.7 million and $3.0 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, 2010 and 2009, respectively. 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, 2010 and 2009 (in thousands).

For the three months ended March 31, 2010	**Broadcast**	**Other Operating Divisions**	**Corporate**	**Consolidated**
Revenue	$ 162,698	$ 6,930	$	$ 169,628
Depreciation of property and equipment	8,890	303	432	9,625
Amortization of definite-lived intangible assets and other assets	4,055	662		4,717
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	(1,089)	(922)	46,227
Interest expense		544	28,430	28,974
Income from equity and cost method investments		543		543

For the three months ended March 31, 2009	**Broadcast**	**Other Operating Divisions**	**Corporate**	**Consolidated**
Revenue	$ 143,203	$ 11,535	$	$ 154,738
Depreciation of property and equipment	11,218	237	478	11,933
	4,770	431		5,201

Amortization of definite-lived intangible assets and other assets				
Amortization of program contract costs and net realizable value adjustments	20,758			20,758
Impairment of goodwill, intangible and other assets	130,098			130,098
General and administrative overhead expenses	1,952	314	4,093	6,359
Operating loss	(100,315)	(1,753)	(4,639)	(106,707)
Interest expense		289	18,085	18,374
Loss from equity and cost method investments		(445)		(445)

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6. 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, 2010 and December 31, 2009 were as follows (in thousands):

	March 31, 2010		December 31, 2009	
	Carrying Value	**Fair Value**	**Carrying Value**	**Fair Value**
8.0% Senior Subordinated Notes, due 2012	$ 225,395	$ 222,978	$ 225,488	$ 220,731
6.0% Convertible Debentures, due 2012	123,421	127,080	122,482	111,991
4.875% Convertible Senior Notes, due 2018	22,685	22,118	37,016	36,091
3.0% Convertible Senior Notes, due 2027	15,352	15,057	27,383	27,044
9.25% Senior Secured Second Lien Notes, due 2017	486,806	525,000	486,519	518,125
Bank Credit Agreement, Term Loan B	323,783	351,625	323,551	314,306
Cunningham Bank Credit Facility	30,158	30,653	32,900	32,900
Active program contracts payable	120,488	105,139	140,443	124,951
Future program liabilities (a)	79,973	63,665	70,038	56,202
Total fair value	$ 1,428,061	$ 1,463,315	$ 1,465,820	$ 1,442,341

(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.

Our notes and debentures payable are fair valued using Level 1 hierarchy inputs described above. Our 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.

7. 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, as amended, the 9.25% Senior Secured Second Lien Notes, due 2017 (the 9.25% Notes) and the 8.0% Senior Subordinated Notes, due 2012 (the 8.0% Notes). Our Class A Common Stock, Class B Common Stock, the 6.0% Debentures, the 4.875% Notes and the 3.0% Notes remain obligations or securities of SBG and are not obligations or securities of STG. As of March 31, 2010, our consolidated total debt of $1,338.1 million included $1,090.6 million of debt related to STG and its subsidiaries of which SBG guaranteed $810.6 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, 2010

(in thousands) (unaudited)

	Sinclair Broadcast Group, Inc.	Sinclair Television Group, Inc.	Guarantor Subsidiaries and KDSM, LLC	Non-Guarantor Subsidiaries	Eliminations	Sinclair Consolidated
Cash	$	$ 38,308	$ 376	$ 13,650	$	$ 52,334
Restricted cash current		37,843				37,843
Accounts and other receivables	62	221	107,375	3,430	(376)	110,712
Other current assets	20	2,285	47,528	2,422	(286)	51,969
Total current assets	82	78,657	155,279	19,502	(662)	252,858
Property and equipment, net	11,165	1,996	184,102	96,307	(7,005)	286,565
Investment in consolidated subsidiaries		671,017			(671,017)	
Restricted cash long-term			484			484
Other long-term assets	76,485	290,008	25,700	89,644	(346,716)	135,121
Total other long-term assets	76,485	961,025	26,184	89,644	(1,017,733)	135,605
Acquired intangible assets			837,776	57,683	6,067	901,526
Total assets	$ 87,732	$ 1,041,678	$ 1,203,341	$ 263,136	$ (1,019,333)	$ 1,576,554
Accounts payable and accrued liabilities	$ 2,046	$ 26,016	$ 35,404	$ 7,366	$ (466)	$ 70,366
Current portion of long-term debt	39,142		2,617	12,647	19	54,425
Other current liabilities			79,417	572		79,989
Total current liabilities	41,188	26,016	117,438	20,585	(447)	204,780