SINCLAIR BROADCAST GROUP INC
Form 10-Q
November 08, 2012
Table of Contents

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 September 30, 2012

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 (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 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 x 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 November 5, 2012
Class A Common Stock	52,332,012
Class B Common Stock	28,933,859

Table of Contents

SINCLAIR BROADCAST GROUP, INC.

FORM 10-Q

FOR THE QUARTER ENDED SEPTEMBER 30, 2012

TABLE OF CONTENTS

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 September 30, 2012		As of December 31, 2011
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents	$	44,625	$	12,967
Accounts receivable, net of allowance for doubtful accounts of $3,187 and $3,008, respectively		151,517		132,915
Affiliate receivable		514		252
Income taxes receivable				225
Current portion of program contract costs		61,033		38,906
Prepaid expenses and other current assets		9,112		17,274
Deferred barter costs		3,401		2,238
Assets held for sale		14,605		
Deferred tax assets		4,351		4,940
Total current assets		289,158		209,717
PROGRAM CONTRACT COSTS, less current portion		14,947		15,584
PROPERTY AND EQUIPMENT, net		365,685		281,521
RESTRICTED CASH, less current portion		42,874		58,726
GOODWILL		908,037		660,117
BROADCAST LICENSES		70,639		47,002
DEFINITE-LIVED INTANGIBLE ASSETS, net		379,757		175,341
OTHER ASSETS		174,439		123,409
Total assets (a)	$	2,245,536	$	1,571,417
LIABILITIES AND EQUITY (DEFICIT)				
CURRENT LIABILITIES:				
Accounts payable	$	6,207	$	8,872
Accrued liabilities		147,334		79,698
Income taxes payable		6,953		
Current portion of notes payable, capital leases and commercial bank financing		44,577		38,195
Current portion of notes and capital leases payable to affiliates		3,294		3,014
Current portion of program contracts payable		91,274		63,825
Deferred barter revenues		3,274		1,978
Liabilities held for sale		325		
Total current liabilities		303,238		195,582
LONG-TERM LIABILITIES:				
Notes payable, capital leases and commercial bank financing, less current portion		1,664,883		1,148,271
Notes payable and capital leases to affiliates, less current portion		14,035		16,545
Program contracts payable, less current portion		19,517		27,625
Deferred tax liabilities		245,277		247,552
Other long-term liabilities		50,970		47,204

Total liabilities (a)		2,297,920		1,682,779
COMMITMENTS AND CONTINGENCIES (See *Note 4*)				
EQUITY (DEFICIT):				
SINCLAIR BROADCAST GROUP SHAREHOLDERS EQUITY (DEFICIT):				
Class A Common Stock, $.01 par value, 500,000,000 shares authorized, 52,306,808 and 55,022,086 shares issued and outstanding, respectively		523		520
Class B Common Stock, $.01 par value, 140,000,000 shares authorized, 28,933,859 shares issued and outstanding, convertible into Class A Common Stock		289		289
Additional paid-in capital		622,133		617,375
Accumulated deficit		(680,092)		(734,511)
Accumulated other comprehensive loss		(4,602)		(4,848)
Total Sinclair Broadcast Group shareholders deficit		(61,749)		(121,175)
Noncontrolling interests		9,365		9,813
Total deficit		(52,384)		(111,362)
Total liabilities and equity (deficit)	$	2,245,536	$	1,571,417

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

(a) Our consolidated total assets as of September 30, 2012 and December 31, 2011 include total assets of variable interest entities (VIEs) of $44.5 million and $33.5 million, respectively, which can only be used to settle the obligations of the VIEs. Our consolidated total liabilities as of September 30, 2012 and December 31, 2011 include total liabilities of the VIEs of $8.5 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)

	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
REVENUES:				
Station broadcast revenues, net of agency commissions	$ 226,377	$ 151,875	$ 637,553	$ 467,206
Revenues realized from station barter arrangements	21,600	17,512	60,655	53,232
Other operating divisions revenues	12,512	11,655	38,609	32,073
Total revenues	260,489	181,042	736,817	552,511
OPERATING EXPENSES:				
Station production expenses	61,967	41,493	185,247	126,755
Station selling, general and administrative expenses	43,604	31,341	121,776	92,095
Expenses recognized from station barter arrangements	19,693	15,815	55,645	48,073
Amortization of program contract costs and net realizable value adjustments	14,495	12,833	44,197	38,117
Other operating divisions expenses	10,372	9,369	33,165	26,102
Depreciation of property and equipment	12,846	7,602	34,684	23,523
Corporate general and administrative expenses	8,286	5,789	25,166	21,526
Amortization of definite-lived intangible and other assets	10,669	4,393	26,694	14,201
Total operating expenses	181,932	128,635	526,574	390,392
Operating income	78,557	52,407	210,243	162,119
OTHER INCOME (EXPENSE):				
Interest expense and amortization of debt discount and deferred financing costs	(35,294)	(24,463)	(92,001)	(78,564)
Loss from extinguishment of debt		(117)	(335)	(4,519)
Income from equity and cost method investments	1,919	2,080	8,343	2,906
Other income, net	547	409	1,733	2,994
Total other expense	(32,828)	(22,091)	(82,260)	(77,183)
Income from continuing operations before income taxes	45,729	30,316	127,983	84,936
INCOME TAX PROVISION	(19,153)	(10,875)	(42,211)	(31,701)
Income from continuing operations	26,576	19,441	85,772	53,235
DISCONTINUED OPERATIONS:				
Loss from discontinued operations, includes income tax (benefit) provision of $(24), $110, $194 and $366, respectively	(224)	(110)	(214)	(300)
NET INCOME	26,352	19,331	85,558	52,935
Net (income) loss attributable to the noncontrolling interests	(107)	(93)	106	161
NET INCOME ATTRIBUTABLE TO SINCLAIR BROADCAST GROUP	$ 26,245	$ 19,238	$ 85,664	$ 53,096
Dividends declared per share	$ 0.15	$ 0.12	$ 0.39	$ 0.36

EARNINGS PER COMMON SHARE ATTRIBUTABLE TO SINCLAIR BROADCAST GROUP:								
Basic earnings per share from continuing operations	$	0.33	$	0.24	$	1.06	$	0.66
Basic earnings per share	$	0.33	$	0.24	$	1.06	$	0.66
Diluted earnings per share from continuing operations	$	0.33	$	0.24	$	1.06	$	0.66
Diluted earnings per share	$	0.32	$	0.24	$	1.05	$	0.66
Weighted average common shares outstanding		81,081		80,764		80,990		80,623
Weighted average common and common equivalent shares outstanding		81,379		81,068		81,267		80,930
AMOUNTS ATTRIBUTABLE TO SINCLAIR BROADCAST GROUP COMMON SHAREHOLDERS:								
Income from continuing operations, net of tax	$	26,469	$	19,348	$	85,878	$	53,396
Loss from discontinued operations, net of tax		(224)		(110)		(214)		(300)
Net income	$	26,245	$	19,238	$	85,664	$	53,096

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

Table of Contents

SINCLAIR BROADCAST GROUP, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands) (Unaudited)

	Three months ended September 30, 2012	Three months ended September 30, 2011	Nine months ended September 30, 2012	Nine months ended September 30, 2011
Net income	$ 26,352	$ 19,331	$ 85,558	$ 52,935
Amortization of net periodic pension benefit costs, net of taxes	57	41	246	122
Comprehensive income	26,409	19,372	85,804	53,057
Comprehensive (income) loss attributable to the noncontrolling interests	(107)	(93)	106	161
Comprehensive income attributable to Sinclair Broadcast Group	$ 26,302	$ 19,279	$ 85,910	$ 53,218

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

Table of Contents

SINCLAIR BROADCAST GROUP, INC.

CONSOLIDATED STATEMENT OF EQUITY (DEFICIT)

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2012

(In thousands) (Unaudited)

	Sinclair Broadcast Group Shareholders								
	Class A Common Stock		Class B Common Stock		Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Noncontrolling Interests	Total Equity (Deficit)
	Shares	Values	Shares	Values					
BALANCE, December 31, 2011	52,022,086	$ 520	28,933,859	$ 289	$ 617,375	$ (734,511)	$ (4,848)	$ 9,813	$ (111,362)
Dividends declared on Class A and Class B Common Stock						(31,245)			(31,245)
Class A Common Stock issued pursuant to employee benefit plans	284,722	3			4,551				4,554
Tax benefit on share based awards					207				207
Distributions to noncontrolling interests								(734)	(734)
Issuance of subsidiary share awards								392	392
Amortization of net periodic pension benefit costs, net of taxes							246		246
Net income						85,664		(106)	85,558
BALANCE, September 30, 2012	52,306,808	$ 523	28,933,859	$ 289	$ 622,133	$ (680,092)	$ (4,602)	$ 9,365	$ (52,384)

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

Table of Contents

SINCLAIR BROADCAST GROUP, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands) (Unaudited)

	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES:		
Net income	$ 85,558	$ 52,935
Adjustments to reconcile net income to net cash flows from operating activities:		
Amortization of deferred financing costs	5,461	4,423
Stock based compensation	4,737	4,226
Depreciation of property and equipment	35,527	23,725
Recognition of deferred revenue	(19,388)	(14,662)
Amortization of definite-lived intangible and other assets	26,877	14,201
Amortization of program contract costs and net realizable value adjustments	44,247	38,117
Original debt issuance discount paid		(13,662)
Deferred tax (benefit) provision	(523)	25,299
Change in assets and liabilities, net of acquisitions:		
Decrease in accounts receivable, net	9,801	3,454
Increase in prepaid expenses and other current assets	(11,375)	(1,429)
Increase in other assets	(20,354)	(353)
Increase in accounts payable and accrued liabilities	41,025	32,640
Increase in income taxes payable	6,953	5,359
Increase in other long-term liabilities	2,657	2,277
Payments on program contracts payable	(52,312)	(52,739)
Other, net	4,413	4,539
Net cash flows from operating activities	163,304	128,350
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES:		
Acquisition of property and equipment	(30,157)	(26,794)
Acquisition of television stations	(590,917)	
Payments for acquisition of assets of other operating divisions		(242)
Purchase of alarm monitoring contracts	(7,343)	(6,930)
Decrease (increase) in restricted cash	15,849	(14,943)
Distributions from equity and cost method investees	9,514	2,632
Investments in equity and cost method investees	(6,176)	(9,414)
Purchase of investments		(4,820)
Proceeds from insurance settlement	32	1,736
Proceeds from the sale of assets	31	66
Proceeds from sale of equity investments		1,166
Loans to affiliates	(236)	(143)
Proceeds from loans to affiliates	140	152
Net cash flows used in investing activities	(609,263)	(57,534)
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES:		
Proceeds from notes payable, commercial bank financing and capital leases	615,707	136,349
Repayments of notes payable, commercial bank financing and capital leases	(95,845)	(135,150)
Proceeds from exercise of stock options, including excess tax benefits of share based payments of $0.2 million and $0.7 million, respectively	327	1,730
Dividends paid on Class A and Class B Common Stock	(31,245)	(28,936)
Payments for deferred financing costs	(8,364)	(4,365)
Proceeds from Class A Common Stock sold by variable interest entity		1,808
Noncontrolling interests distributions	(734)	(346)
Repayments of notes and capital leases to affiliates	(2,229)	(2,513)

Net cash flows from (used in) financing activities		477,617		(31,423)
NET INCREASE IN CASH AND CASH EQUIVALENTS		31,658		39,393
CASH AND CASH EQUIVALENTS, beginning of period		12,967		21,974
CASH AND CASH EQUIVALENTS, end of period	$	44,625	$	61,367

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

Table of Contents

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.

Discontinued Operations

In accordance with Financial Accounting Standards Board s (FASB) guidance on reporting assets held for sale, we reported the financial position and results of operations of our station in Lansing, Michigan (WLAJ-TV), as assets and liabilities held for sale in the accompanying consolidated balance sheets and consolidated statements of operations. Discontinued operations have not been segregated in the consolidated statements of cash flows and, therefore, amounts for certain captions will not agree with the accompanying consolidated balance sheets and consolidated statements of operations. WLAJ-TV was recently acquired in the second quarter of 2012 in connection with the acquisition of the television stations from Freedom Communications (Freedom). See *Note 2. Acquisitions* for more information. The operating results of WLAJ-TV, which is expected to divest in the first quarter of 2013, are not included in our consolidated results of operations from continuing operations for the three and nine months ended September 30, 2012.

Interim Financial Statements

The consolidated financial statements for the three and nine months ended September 30, 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 each 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 7. 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 September 30, 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 contains 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 VIEs through the sales and managerial services we provide and we absorb losses and returns that would be considered significant to Cunningham. See *Note 7. Related Person Transactions* for more information on our arrangements

Table of Contents

with Cunningham. Included in the accompanying consolidated statements of operations for the three months ended September 30, 2012 and 2011 are net broadcast revenues of $25.5 million and $20.9 million, respectively, that relate to LMAs with Cunningham. For the nine months ended September 30, 2012 and 2011, Cunningham s stations provided us with approximately $73.5 million and $66.8 million, respectively, of net broadcast revenues.

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 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. We have determined that the License Assets of these stations are VIEs, and, based on the terms of the agreements and the significance of our investment in the stations, we are the primary beneficiary of the variable interests because, subject to the ultimate control of the licensees, 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 because we absorb losses and returns that would be considered significant to the VIEs. Included in the accompanying consolidated statements of operations for the three months ended September 30, 2012 and 2011 are net broadcast revenues of $4.1 million and $2.6 million, respectively, that relate to these arrangements. For the nine months ended September 30, 2012 and 2011, are net broadcast revenues of $11.9 million and $8.7 million, respectively, that relate to these arrangements.

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 September 30, 2012	As of December 31, 2011
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 3,598	$ 2,739
Accounts receivable	103	
Income taxes receivable	158	142
Current portion of program contract costs	1,179	413
Prepaid expenses and other current assets	127	99
Total current asset	5,165	3,393
PROGRAM CONTRACT COSTS, less current portion	332	271
PROPERTY AND EQUIPMENT, net	6,114	6,658
GOODWILL	6,357	6,357
BROADCAST LICENSES	6,788	4,208
DEFINITE-LIVED INTANGIBLE ASSETS, net	8,545	6,601
OTHER ASSETS	11,175	5,980
Total assets	$ 44,476	$ 33,468
LIABILITIES		
CURRENT LIABILITIES:		
Accounts payable	$ 15	$ 37
Accrued liabilities	103	315
Current portion of notes payable, capital leases and commercial bank financing	2,864	11,074
Current portion of program contracts payable	2,792	373
Total current liabilities	5,774	11,799
LONG-TERM LIABILITIES:		
Notes payable, capital leases and commercial bank financing, less current portion	2,317	2,411

Program contracts payable, less current portion		434		173
Total liabilities	$	8,525	$	14,383

The amounts above represent the consolidated assets and liabilities of the VIEs related to our LMAs with Cunningham and certain 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 payments made under the LMA as of September 30, 2012 and December 31, 2011 which are excluded from liabilities above were $29.8 million and $22.7 million, respectively. The total capital lease assets excluded from above were $11.7 million and $11.8 million as of September 30, 2012 and December 31, 2011, 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 pursuant to an LMA. Effective April 1, 2012, we completed the acquisition of these stations and the LMA was terminated. We determined that the Freedom stations were VIEs during the period of the LMA based on the terms of the agreement. We were not the primary beneficiary because the owner of the stations had the power to direct the activities of the VIEs that most significantly impacted the economic performance of the VIEs. In the consolidated statements of operations for the nine months ended September 30, 2012 are net broadcast revenues of $10.0 million and station production expenses of $7.8 million related to the Freedom LMAs, during the period prior to the acquisition.

Table of Contents

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 September 30, 2012		As of December 31, 2011	
	Carrying amount	Maximum exposure	Carrying amount	Maximum exposure
Investments in real estate ventures	$ 3,752	$ 3,752	$ 8,009	$ 8,009
Investments in investment companies	25,370	25,370	26,276	26,276
Total	$ 29,122	$ 29,122	$ 34,285	$ 34,285

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 $0.3 million and $1.3 million in the three months ended September 30, 2012 and 2011, respectively. We recorded income of $7.0 million and $2.2 million for the nine months ended September 30, 2012 and 2011, respectively.

Our maximum exposure is equal to the carrying value of our investments. As of September 30, 2012 and December 31, 2011, our unfunded commitments related to private equity investment funds totaled $10.9 million for each of the periods.

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.

In July 2012, the FASB issued new guidance for testing indefinite-lived intangible assets for impairment. The new guidance allows companies to perform a qualitative assessment to determine whether further impairment testing of indefinite-lived intangible assets is necessary, similar to the approach now applied to goodwill. Companies can first determine based on certain qualitative factors whether it is more likely than not (a likelihood of more than 50 percent) that an indefinite-lived intangible asset is impaired. The new standard is intended to reduce the cost and complexity of testing indefinite-lived intangible assets for impairment. The revised standard is effective for annual and interim impairment tests performed for fiscal years beginning after September 30, 2012 and early adoption is permitted. We plan to adopt this new guidance in the fourth quarter of 2012 when completing our annual impairment analysis. This guidance will impact how we perform our annual impairment testing for indefinite-lived intangible assets and may change our related disclosures; however, we do not believe it 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 July 2012, we entered into a definitive agreement to purchase the assets of Newport Television (Newport) for $412.5 million. Newport owns and operates six stations in five markets. The transaction is expected to close no earlier than December 2012, subject to the approval of the FCC. Pursuant to the asset purchase agreement, we deposited 10% of the purchase price into an escrow account. As of September 30, 2012, $41.3 million in restricted cash classified as noncurrent relates to the acquisition of Newport. See *Pending Acquisitions and Divestments* under *Note 4. Commitments and Contingencies* for more information.

In August, we entered into a definitive agreement to purchase the assets of KBTV located in Port Arthur, TX, for $14.0 million. Pursuant to the asset purchase agreement, we deposited 10% of the purchase price into an escrow account. As of September 30, 2012, $1.4 million in restricted cash classified as noncurrent relates to the acquisition of KBTV. See *Pending Acquisitions and Divestments* under *Note 4. Commitments and Contingencies* for more information.

Table of Contents

Additionally, under the terms of certain lease agreements, as of September 30, 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 and nine months ended September 30, 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. We provide a valuation allowance for deferred tax assets if we determine that it is more likely than not that some or all of the deferred tax assets will not be realized. In evaluating our ability to realize net deferred tax assets, we consider all available evidence, both positive and negative, including our past operating results, tax planning strategies and forecasts of future taxable income. In considering these sources of taxable income, we must make certain judgments that are based on the plans and estimates used to manage our underlying businesses on a long-term basis. A valuation allowance has been provided for deferred tax assets related to a substantial portion of our available state net operating loss carryforwards, based on past operating results, expected timing of the reversals of exist