

SINCLAIR BROADCAST GROUP INC
Form 10-Q
May 09, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One) **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended March 31, 2008

OR

 **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to .

COMMISSION FILE NUMBER: 000-26076

SINCLAIR BROADCAST GROUP, INC.

(Exact name of Registrant as specified in its charter)

Maryland
(State or other jurisdiction of
Incorporation or organization)

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

10706 Beaver Dam Road
Hunt Valley, Maryland 21030
(Address of principal executive offices, zip code)

(410) 568-1500

(Registrant's telephone number, including area code)

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None

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer
(Do not check if a smaller reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

Indicate the number of shares 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
Class A Common Stock	May 2, 2008 53,154,513
Class B Common Stock	34,453,859

SINCLAIR BROADCAST GROUP, INC.

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FOR THE QUARTER ENDED MARCH 31, 2008

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PART I. FINANCIAL INFORMATION**ITEM 1. FINANCIAL STATEMENTS****SINCLAIR BROADCAST GROUP, INC.****CONSOLIDATED BALANCE SHEETS**

(In thousands, except share and per share data)

	As of March 31, 2008 (Unaudited)	As of December 31, 2007
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 12,594	\$ 20,980
Accounts receivable, net of allowance for doubtful accounts of \$3,782 and \$3,882, respectively	117,634	127,891
Affiliate receivable	129	15
Current portion of program contract costs	44,380	50,276
Income taxes receivable	13,039	16,228
Prepaid expenses and other current assets	9,489	13,448
Deferred barter costs	2,568	2,026
Deferred tax assets	7,752	7,752
Total current assets	207,585	238,616
PROGRAM CONTRACT COSTS, less current portion	32,733	32,683
PROPERTY AND EQUIPMENT, net	343,776	284,551
GOODWILL, net	1,023,428	1,010,594
BROADCAST LICENSES, net	401,130	401,130
DEFINITE-LIVED INTANGIBLE ASSETS, net	189,126	192,733
OTHER ASSETS	61,184	64,348
Total assets	\$ 2,258,962	\$ 2,224,655
LIABILITIES AND SHAREHOLDERS EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 3,817	\$ 3,732
Accrued liabilities	71,614	82,374
Current portion of notes payable, capital leases and commercial bank financing	45,043	42,950
Current portion of notes and capital leases payable to affiliates	2,808	3,839
Current portion of program contracts payable	84,086	90,208
Deferred barter revenues	2,813	2,143
Total current liabilities	210,181	225,246
LONG-TERM LIABILITIES:		
Notes payable, capital leases and commercial bank financing, less current portion	1,289,402	1,274,386
Notes payable and capital leases to affiliates, less current portion	32,870	23,174
Program contracts payable, less current portion	79,032	79,985
Deferred tax liabilities	321,297	313,364
Other long-term liabilities	54,323	52,659
Total liabilities	1,987,105	1,968,814
MINORITY INTEREST IN CONSOLIDATED ENTITIES	17,721	3,067

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SHAREHOLDERS EQUITY:

Class A Common Stock, \$.01 par value, 500,000,000 shares authorized, 53,035,294 and 52,830,025 shares issued and outstanding, respectively	530	528
Class B Common Stock, \$.01 par value, 140,000,000 shares authorized, 34,453,859 shares issued and outstanding, respectively, convertible into Class A Common Stock	345	345
Additional paid-in capital	616,295	614,156
Accumulated deficit	(361,254)	(360,324)
Accumulated other comprehensive loss	(1,780)	(1,931)
Total shareholders equity	254,136	252,774
Total liabilities and shareholders equity	\$ 2,258,962	\$ 2,224,655

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

SINCLAIR BROADCAST GROUP, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

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

	Three Months Ended March 31,	
	2008	2007
REVENUES:		
Station broadcast revenues, net of agency commissions	\$ 160,892	\$ 148,334
Revenues realized from station barter arrangements	14,638	13,715
Other operating divisions revenues	11,127	2,887
Total revenues	186,657	164,936
OPERATING EXPENSES:		
Station production expenses	38,855	35,547
Station selling, general and administrative expenses	34,611	33,653
Expenses recognized from station barter arrangements	13,517	12,430
Amortization of program contract costs and net realizable value adjustments	19,709	21,316
Other operating divisions expenses	11,934	3,546
Depreciation of property and equipment	10,553	10,650
Corporate general and administrative expenses	6,721	5,964
Amortization of definite-lived intangible assets and other assets	4,539	4,244
Total operating expenses	140,439	127,350
Operating income	46,218	37,586
OTHER INCOME (EXPENSE):		
Interest expense and amortization of debt discount and deferred financing costs	(20,202)	(26,382)
Interest income	181	388
Gain (loss) from sale of assets	38	(12)
Loss from extinguishment of debt	(286)	(15,681)
Gain from derivative instruments	999	1,057
Income (loss) from equity and cost method investments	695	(12)
Other income, net	367	222
Total other expense	(18,208)	(40,420)
Income (loss) from continuing operations before income taxes	28,010	(2,834)
INCOME TAX (PROVISION) BENEFIT	(11,466)	721
Income (loss) from continuing operations	16,544	(2,113)
DISCONTINUED OPERATIONS:		
Loss from discontinued operations, net of related income tax provision of \$139 and \$17, respectively	(131)	(276)
NET INCOME (LOSS)	\$ 16,413	\$ (2,389)
BASIC AND DILUTED EARNINGS PER COMMON SHARE:		
Earnings (loss) per share from continuing operations	\$ 0.19	\$ (0.03)
Earnings per share from discontinued operations	\$	\$
Earnings (loss) per share	\$ 0.19	\$ (0.03)
Weighted average common shares outstanding	87,246	86,140
Weighted average common and common equivalent shares outstanding	93,958	86,140
Dividends declared per share	\$ 0.20	\$ 0.15

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

SINCLAIR BROADCAST GROUP, INC.

CONSOLIDATED STATEMENT OF SHAREHOLDERS EQUITY

FOR THE THREE MONTHS ENDED MARCH 31, 2008

(In thousands) (Unaudited)

	Class A Common Stock	Class B Common Stock	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Shareholders Equity
BALANCE, December 31, 2007	\$ 528	\$ 345	\$ 614,156	\$ (360,324)	\$ (1,931)	\$ 252,774
Dividends declared on Class A and Class B Common Stock				(17,343)		(17,343)
Class A Common Stock issued pursuant to employee benefit plans	2		2,121			2,123
Tax benefit on employee stock awards			18			18
Amortization of net periodic pension benefit costs					151	151
Net income				16,413		16,413
BALANCE, March 31, 2008	\$ 530	\$ 345	\$ 616,295	\$ (361,254)	\$ (1,780)	\$ 254,136
Other comprehensive income:						
Net income	\$	\$	\$	\$ 16,413	\$	\$ 16,413
Amortization of net periodic pension benefit costs					151	151
Comprehensive income	\$	\$	\$	\$ 16,413	\$ 151	\$ 16,564

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

SINCLAIR BROADCAST GROUP, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands) (Unaudited)

	Three Months Ended March 31,	
	2008	2007
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES:		
Net income (loss)	\$ 16,413	\$ (2,389)
Adjustments to reconcile net income to net cash flows from operating activities:		
Amortization of debt discount, net of debt premium	787	702
Depreciation of property and equipment	10,615	10,897
Recognition of deferred revenue	(8,312)	(1,384)
Accretion of capital leases	222	231
(Income) loss from equity and cost method investments	(695)	180
Gain (loss) on sale of property	(38)	12
Gain from derivative instruments	(999)	(1,057)
Amortization of definite-lived intangible assets and other assets	4,539	4,367
Amortization of program contract costs and net realizable value adjustments	19,709	21,384
Amortization of deferred financing costs	1,048	539
Stock-based compensation	1,979	698
Excess tax benefits on employee stock awards	18	(1,574)
Loss on extinguishment of debt, non-cash portion	41	2,232
Amortization of derivative instruments	39	134
Amortization of net periodic pension benefit costs	48	60
Deferred tax provision related to operations	8,036	877
Net effect of change in deferred barter revenues and deferred barter costs	128	(48)
Changes in assets and liabilities, net of effects of acquisitions and dispositions:		
Decrease in accounts receivable, net	11,237	10,370
Decrease (increase) in income taxes receivable	3,189	(2,012)
Decrease in prepaid expenses and other current assets	4,169	6,729
Decrease (increase) in other assets	2,702	(964)
Decrease in accounts payable and accrued liabilities	(6,213)	(6,170)
Decrease in other long-term liabilities	(150)	(146)
Increase in minority interest	5	39
Dividends and distributions from equity and cost method investees	401	88
Payments on program contracts payable	(20,878)	(20,553)
Net cash flows from operating activities	48,040	23,242
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES:		
Acquisition of property and equipment	(5,905)	(6,535)
Consolidation of variable interest entity	2,186	
Purchase of alarm monitoring contracts	(914)	
Payments for acquisition of television stations	(17,033)	
Payments for acquisitions of other operating divisions companies	(34,433)	
Dividends and distributions from cost method investees	860	435
Investments in equity and cost method investees	(8,200)	
Proceeds from the sale of assets	129	11
Loans to affiliates	(112)	(37)
Proceeds from loans to affiliates	41	35
Net cash flows used in investing activities	(63,381)	(6,091)
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES:		
Proceeds from notes payable, commercial bank financing and capital leases	79,511	276,500
Repayments of notes payable, commercial bank financing and capital leases	(64,481)	(345,232)
Proceeds from exercise of stock options, including excess tax benefits of \$0 million and \$1,574 million, respectively		11,357

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Dividends paid on Class A and Class B Common Stock	(15,139)	(10,624)
Payments for deferred financing costs	(7)	
Proceeds from derivative terminations	8,001	
Repayments of notes and capital leases to affiliates	(930)	(1,110)
Net cash flows from (used in) financing activities	6,955	(69,109)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(8,386)	(51,958)
CASH AND CASH EQUIVALENTS, beginning of period	20,980	67,408
CASH AND CASH EQUIVALENTS, end of period	\$ 12,594	\$ 15,450

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

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 for which we are the primary beneficiary. Minority interest represents 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.

Discontinued Operations

In accordance with Statement of Financial Accounting Standards (SFAS) No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, we have reported the financial position and results of operations of WGGB-TV in Springfield, Massachusetts 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. The operating results of WGGB-TV are not included in our consolidated results from continuing operations for the quarters ended March 31, 2008 and 2007. See *Note 8. Discontinued Operations*, for additional information.

Interim Financial Statements

The consolidated financial statements for the three months ended March 31, 2008 and 2007 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 permitted under the applicable rules and regulations of the Securities and Exchange Commission, 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, 2007 filed with the Securities and Exchange Commission. The consolidated statements of operations presented in the accompanying consolidated financial statements are not necessarily representative of operations for an entire year.

Recent Accounting Pronouncements

In March 2008, the Emerging Issues Task Force (EITF) issued a consensus for exposure on Issue No. 08-4, *Transition Guidance for Conforming Changes to Issue No. 98-5, Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios*. The Issue provides transition guidance for changes made to Issue 98-5 resulting from the issuance of