

SINCLAIR BROADCAST GROUP INC

Form 10-K

March 12, 2013

[Table of Contents](#)

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

**FORM 10-K**

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

**FOR THE FISCAL YEAR ENDED DECEMBER 31, 2012**

**OR**

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

**FOR THE TRANSITION PERIOD FROM    TO    .**

**COMMISSION FILE NUMBER: 000-26076**

**SINCLAIR BROADCAST GROUP, INC.**

(Exact name of Registrant as specified in its charter)

Edgar Filing: SINCLAIR BROADCAST GROUP INC - Form 10-K

**Maryland**

**52-1494660**

(State or other jurisdiction of  
incorporation or organization)

(I.R.S. Employer Identification No.)

**10706 Beaver Dam Road**

**Hunt Valley, MD 21030**

(Address of principal executive offices)

**(410) 568-1500**

(Registrant's telephone number, including area code)

---

Securities registered pursuant to Section 12(b) of the Act:

<b>Title of each class</b>	<b>Name of each exchange on which registered</b>
Class A Common Stock, par value \$ 0.01 per share	The NASDAQ Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, 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 files). Yes  No

## Edgar Filing: SINCLAIR BROADCAST GROUP INC - Form 10-K

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

Based on the closing sales price of \$9.06 per share as of June 29, 2012, the aggregate market value of the voting and non-voting common equity of the Registrant held by non-affiliates was approximately \$465.8 million.

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date.

	<b>Number of shares outstanding as of</b>
<b>Title of each class</b>	<b>March 1, 2013</b>
Class A Common Stock	52,783,301
Class B Common Stock	28,846,259

Documents Incorporated by Reference - Portions of our definitive Proxy Statement relating to our 2013 Annual Meeting of Shareholders are incorporated by reference into Part III of this Form 10-K. We anticipate that our Proxy Statement will be filed with the Securities and Exchange Commission within 120 days after the end of our fiscal year ended December 31, 2012.

Table of Contents

**SINCLAIR BROADCAST GROUP, INC.**

**FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 2012**

**TABLE OF CONTENTS**

<b><u>PART I</u></b>		<b>5</b>
<u>ITEM 1.</u>	<u>BUSINESS</u>	5
<u>ITEM 1A.</u>	<u>RISK FACTORS</u>	25
<u>ITEM 1B.</u>	<u>UNRESOLVED STAFF COMMENTS</u>	37
<u>ITEM 2.</u>	<u>PROPERTIES</u>	37
<u>ITEM 3.</u>	<u>LEGAL PROCEEDINGS</u>	37
<u>ITEM 4.</u>	<u>MINE SAFETY DISCLOSURES</u>	37
<b><u>PART II</u></b>		<b>38</b>
<u>ITEM 5.</u>	<u>MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES</u>	38
<u>ITEM 6.</u>	<u>SELECTED FINANCIAL DATA</u>	39
<u>ITEM 7.</u>	<u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	40
<u>ITEM 7A.</u>	<u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	57
<u>ITEM 8.</u>	<u>FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA</u>	57
<u>ITEM 9.</u>	<u>CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE</u>	57
<u>ITEM 9A.</u>	<u>CONTROLS AND PROCEDURES</u>	57
<u>ITEM 9B.</u>	<u>OTHER INFORMATION</u>	59
<b><u>PART III</u></b>		<b>60</b>
<u>ITEM 10.</u>	<u>DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE</u>	60
<u>ITEM 11.</u>	<u>EXECUTIVE COMPENSATION</u>	60
<u>ITEM 12.</u>	<u>SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS</u>	60
<u>ITEM 13.</u>		60

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR  
INDEPENDENCE

<u>ITEM 14.</u>	<u>PRINCIPAL ACCOUNTING FEES AND SERVICES</u>	60
<b><u>PART IV</u></b>		<b>61</b>
<u>ITEM 15.</u>	<u>EXHIBITS, FINANCIAL STATEMENT SCHEDULES</u>	61
<b><u>SIGNATURES</u></b>		<b>65</b>

Table of Contents

**FORWARD-LOOKING STATEMENTS**

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

*General risks*

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

*Industry risks*

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

## Edgar Filing: SINCLAIR BROADCAST GROUP INC - Form 10-K

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

### *Risks specific to us*

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

Table of Contents

- our ability to effectively respond to technology affecting our industry and to increasing competition from other media providers;
- the popularity of syndicated programming we purchase and network programming that we air;
- the strength of ratings for our local news broadcasts including our news sharing arrangements;
- the successful execution of our multi-channel broadcasting initiatives including mobile DTV; and
- the results of prior year tax audits by taxing authorities.

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



Table of Contents

**PART I**

**ITEM 1. BUSINESS**

We are a diversified television broadcasting company that owns or provides certain programming, operating or sales services to more television stations than most other commercial broadcasting groups in the United States. As of March 1, 2013, we own, provide programming and operating services pursuant to local marketing agreements (LMAs) or provide (or are provided) sales services pursuant to outsourcing agreements to 86 television stations in 46 markets. For the purpose of this report, these 86 stations are referred to as our stations.

Our broadcast group is a single reportable segment for accounting purposes and includes the following network affiliations: FOX (24 stations); MyNetworkTV (19 stations; not a network affiliation; however, it is branded as such); The CW (16 stations); ABC (11 stations); CBS (11 stations); NBC (3 stations), Azteca (1 station) and one independent station. In addition, certain stations broadcast programming on second and third digital signals through network affiliation or program service arrangements with CBS (rebroadcasted content from other primary channels within the same market), The CW, MyNetworkTV, This TV, ME TV, Weather Radar, The Weather Authority Network, Live Well Network, Antenna TV, Bounce Network, The Country Network, Estrella TV, LATV, Azteca and Telemundo. Refer to our *Markets and Stations* table later in this Item 1 for more information.

We broadcast free over-the-air programming to television viewing audiences in the communities we serve through our local television stations. The programming that we provide on our primary station channels consists of network provided programs, news produced locally, local sporting events, programming from program service arrangements, syndicated entertainment programs and other locally produced programs such as Ring of Honor wrestling, a franchise we acquired in 2011. We produce news at 40 stations in 23 markets, including two stations where we produce news pursuant to a local news sharing arrangement with a competitive station in that market. We have 11 stations which have local news sharing arrangements with a competitive station in that market that produces the news aired on our station. We provide live local sporting events on many of our stations by acquiring the local television broadcast rights for these events. Additionally, we purchase and barter for popular syndicated programming from third party television producers. See *Operating Strategy* later in this Item 1 for more information regarding the programming we provide.

Our primary source of revenue is the sale of commercial inventory on our television stations to our advertising customers. Our objective is to meet the needs of our advertising customers by delivering significant audiences in key demographics. Our strategy is to achieve this objective by providing quality local news programming and popular network and syndicated programs to our viewing audience. We attract most of our national television advertisers through national marketing representation firms which have offices in New York City, Los Angeles, Chicago and Atlanta. Our local television advertisers are attracted through the use of a local sales force at each of our television stations, which is comprised of approximately 507 sales account executives and local sales managers company-wide.

We also earn revenue from our retransmission consent agreements through payments from the MVPDs in our markets. The MVPDs are local cable companies, satellite television and local telecommunication video providers. The revenues primarily represent payments from the MVPDs for access to our broadcast signal and is typically based on the number of subscribers they have.

## Edgar Filing: SINCLAIR BROADCAST GROUP INC - Form 10-K

Our operating results are subject to cyclical fluctuations from political advertising. Political spending has been significantly higher in the even-number years due to the cyclical nature of political advertising. In addition, every four years, political spending is typically elevated further due to the advertising preceding the presidential election. Because of the political election cyclical nature, there has been a significant difference in our operating results when comparing even-numbered years performance to the odd numbered years performance. We believe political advertising will continue to be a strong advertising category in our industry, particularly in light of the recent United States Supreme Court decision in *Citizens United v. Federal Election Commission* in which the Supreme Court ruled that federal laws limiting issue advocacy by for-profit and non-profit corporations was unconstitutional. With increased spending by Political Action Committees (PACs), including so-called Super PACs and as political-activism around social, political, economic and environmental causes continues to draw attention, political advertising levels may increase further.

We continue to believe the prospects for a viable mobile television service can occur because of the significant advantages over the air, point to multipoint delivery has compared to the limitations and expenses the consumer is facing through the transitional cell phone delivery option. Television broadcasters have the potential capability of delivering significantly greater video and data at a fraction of the cost of the existing carrier network. We believe a change to the existing mobile broadcast standard to a standard that is comparable to that used in several other parts of the world is essential. We cannot predict at this time how or if any change to the current US mobile standard will take place.

Table of Contents

We have two reportable operating segments, broadcast and other operating divisions that are disclosed separately from our corporate activities. Our broadcast segment includes our television stations. Our other operating divisions segment primarily earned revenues in 2012 from sign design and fabrication; regional security alarm operating and bulk acquisitions; and real estate ventures. Corporate and unallocated expenses primarily include our costs to operate as a public company and to operate our corporate headquarters location. Corporate is not a reportable segment. See *Note 13. Segment Data*, in the Notes to our Consolidated Financial Statements for more information regarding our operating segments.

We are a Maryland corporation formed in 1986. Our principal offices are located at 10706 Beaver Dam Road, Hunt Valley, Maryland 21030. Our telephone number is (410) 568-1500 and our website address is [www.sbg.net](http://www.sbg.net). The information contained on, or accessible through, our website is not part of this annual report on Form 10-K and is not incorporated herein by reference.

Table of Contents**TELEVISION BROADCASTING***Markets and Stations*

As of December 31, 2012, we own and operate, provide programming services to, provide sales services to or have agreed to acquire the following television stations:

Market	Market Rank (a)	Stations	Channel	Status (b)	Network/ Program Service Arrangement (c)	Station Rank in Market (d)	Expiration Date of FCC License
Tampa/St. Petersburg, Florida	14	WTTA	Primary	O&O	MNT	8 of 9	2/01/13 (f)
Minneapolis/St. Paul, Minnesota	15	WUCW	Primary	O&O	CW	6 of 7	4/01/14
		WUCW	Second				
St. Louis, Missouri	21	KDNL	Primary	O&O	The Country Network ABC	4 of 7	2/01/14
		KDNL	Second				
Pittsburgh, Pennsylvania	23	WPGH	Primary	O&O	The Country Network FOX	4 of 6	8/01/15
		WPMY	Primary	O&O			8/01/15
		WPGH	Second		MNT	6 of 6	
Raleigh/Durham, North Carolina	24	WLFL	Primary	O&O	The Country Network CW	5 of 7	12/01/04 (e)
		WRDC	Primary	O&O			12/01/04 (e)
		WLFL	Second		MNT	6 of 7	
Baltimore, Maryland	27	WBFF	Primary	O&O	The Country Network FOX	3 of 6	10/01/04 (e)
		WNUV	Primary	LMA(g)			10/01/12 (f)
		WBFF	Second		CW	5 of 6	
		WBFF	Third		This TV		
Nashville, Tennessee	29	WZTV	Primary	O&O	The Country Network FOX	4 of 7	8/01/13
		WUXP	Primary	O&O			
		WNAB	Primary	OSA(h)	MNT	5 of 7	8/01/13
		WNAB	Second		CW	6 of 7	8/01/13
Columbus, Ohio	32	WSYX	Primary	O&O	The Country Network ABC	3 of 6	10/01/13
		WTTE	Primary	LMA(g)			10/01/05 (e)
		WWHO	Primary	OSA(k)	FOX	4 of 6	10/01/13
		WSYX	Second		CW	5 of 6	

Edgar Filing: SINCLAIR BROADCAST GROUP INC - Form 10-K

					This TV and MNT		
Salt Lake City/St. George, Utah	33	KUTV	Primary	O&O	CBS	1 of 7	10/01/14
		KMYU	Primary	O&O			10/01/14
		KUTV	Second		This TV and MNT	5 of 7	
		KMYU	Second		This TV and MNT		
					CBS(p)		
Milwaukee, Wisconsin	34	WVTV	Primary	O&O	CW	6 of 9	12/01/13
		WCGV	Primary	O&O			12/01/05 (e)
		WCGV	Second		MNT	7 of 9	
					The Country Network		
Cincinnati, Ohio	35	WKRC	Primary	O&O	CBS	1 of 7	10/01/13
		WSTR	Primary	OSA(q)			10/01/13
		WKRC	Second		MNT	5 of 7	
					CW		
San Antonio, Texas	36	WOAI	Primary	O&O	NBC	3 of 7	8/01/14
		KABB	Primary	O&O			
		KMYS	Primary	OSA(q)	FOX	4 of 7	8/01/14
		KABB	Second				
					CW		
					The Country Network		
					Live Well Network		
Asheville, North Carolina/ Greenville/Spartanburg/ Anderson, South Carolina	37	WLOS	Primary	O&O	ABC	3 of 6	12/01/04 (e)
		WMYA	Primary	LMA(g)			12/01/04 (e)
		WLOS	Second		MNT	5 of 6	
		WMYA	Second		MNT		
					The Country Network		
West Palm Beach/Fort Pierce, Florida	38	WPEC	Primary	O&O	CBS	2 of 6	2/01/13 (f)
		WTVX	Primary	O&O			2/01/13 (f)
		WTCN	Primary	O&O	CW	5 of 6	2/01/13 (f)
		WWHB	Primary	O&O			2/01/13 (f)
		WPEC	Second		MNT	6 of 6	
		WPEC	Third				
		WTVX	Second		AZTECA(t)	not available	
		WTVX	Third		CBS(p)		
					Weather Radar		
					AZTECA(p)		
					MNT(p)		
					LATV		

Edgar Filing: SINCLAIR BROADCAST GROUP INC - Form 10-K

Table of Contents

Market	Market Rank (a)	Stations	Channel	Status (b)	Network/ Program Service Arrangement (c)	Station Rank in Market (d)	Expiration Date of FCC License
Grand Rapids/Kalamazoo, Michigan	39	WWMT	Primary	O&O	CBS	1 of 6	10/01/13
		WWMT	Second				
Las Vegas, Nevada	40	KVMY	Primary	O&O	MNT	5 of 7	10/01/14
		KVCW	Primary	O&O	CW	6 of 7	10/01/14
		KVMY	Second				
		KVCW	Second				
		KVCW	Third	Estella TV			
					This TV		
Oklahoma City, Oklahoma	41	KOKH	Primary	O&O	FOX	4 of 7	6/01/14
		KOCB	Primary	O&O	CW	5 of 7	6/01/14
		KOKH	Second				
Birmingham, Alabama	42	WTTO	Primary	O&O	CW	5 of 8	4/01/05 (e)
		WABM	Primary	O&O	MNT	6 of 8	4/01/13
		WDBB	Primary	LMA(g)			
		WTTO	Second				
		WDBB	Second	CW	5 of 8 (l)		
Harrisburg/Lancaster/ Lebanon/York, Pennsylvania	43	WHP	Primary	O&O	CBS	3 of 8	8/01/15
		WLYH	Primary	LMA(r)	CW	5 of 8	8/01/07(e)
		WHP	Second				
		WLYH	Second	MNT			
Norfolk, Virginia	44	WTVZ	Primary	O&O	Live Well Network MNT	6 of 7	10/01/12 (f)
		WTVZ	Second				
Austin, Texas	45	KEYE	Primary	O&O	The Country Network CBS	3 of 6	8/01/14
		KEYE	Second		Telemundo		
Greensboro/Winston-Salem/Highpoint, North Carolina	46	WXLV	Primary	O&O	ABC	4 of 6	12/01/04 (e)
		WMYV	Primary	O&O	MNT	5 of 6	12/01/04 (e)
		WXLV	Second				
Buffalo, New York	52	WUTV	Primary	O&O	The Country Network FOX	4 of 6	6/01/15
		WNYO	Primary	O&O	MNT	6 of 6	6/01/15
		WUTV	Second				
	53			O&O	The Country Network CW	5 of 7	4/01/15

Edgar Filing: SINCLAIR BROADCAST GROUP INC - Form 10-K

Providence, Rhode Island/ New Bedford, Massachusetts		WLWC	Primary		LATV		
		WLWC	Second				
Richmond, Virginia	57	WRLH	Primary	O&O	FOX	4 of 6	10/01/12 (f)
		WRLH	Second				
					This TV and MNT		
Albany, New York	58	WRGB	Primary	O&O	CBS	1 of 6	6/01/15
		WCWN	Primary	O&O			6/01/15
		WRGB	Second		CW	5 of 6	
		WCWN	Second				
					This TV		
					CBS(p)		
Mobile, Alabama/Pensacola, Florida	60	WEAR	Primary	O&O	ABC	2 of 7	2/01/13 (f)
		WPMI	Primary	OSA(q)			4/01/13
		WJTC	Primary	OSA(q)	NBC	4 of 7	2/01/13 (f)
		WFGX	Primary	O&O			2/01/13 (f)
		WEAR	Second		IND	5 of 7	
		WPMI	Second				
					This TV and MNT	7 of 7	
					The Country Network		
					The Weather Authority Network		
Dayton, Ohio	63	WKEF	Primary	O&O	ABC	3 of 5	10/01/13
		WRGT	Primary	LMA(g)			10/01/05 (e)
		WRGT	Second		FOX	4 of 5	
					This TV and MNT		
Lexington, Kentucky	64	WDKY	Primary	O&O	FOX	4 of 6	8/01/13
Charleston/Huntington, West Virginia	65	WCHS	Primary	O&O	ABC	2 of 6	10/01/12 (f)
		WVAH	Primary	LMA(g)			10/01/04 (e)
		WVAH	Second		FOX	4 of 6	
					The Country Network		

Edgar Filing: SINCLAIR BROADCAST GROUP INC - Form 10-K

Table of Contents

Market	Market Rank (a)	Stations	Channel	Status (b)	Network/ Program Service Arrangement (c)	Station Rank in Market (d)	Expiration Date of FCC License
Wichita/Hutchinson Plus, Kansas	66	KSAS (o)	Primary	O&O	FOX	4 of 6	6/01/14
			Primary	LMA(r)			6/01/14
		KMTW KSAS (o)	Second		MNT	6 of 6	
			Second		Antenna TV		
					The Country Network		
Flint/Saginaw/Bay City, Michigan	67	WSMH	Primary	O&O	FOX	3 of 6	10/01/13
		WSMH	Second		The Country Network		
Des Moines, Iowa	72	KDSM	Primary	O&O	FOX	4 of 6	2/01/14
			Second		The Country Network		
Rochester, New York	78	WUHF	Primary	O&O(i)	FOX	not available	6/01/15
		WHAM	Primary	OSA(s)		not available	6/01/15
		WHAM	Second		ABC		
					CW		
Portland, Maine	80	WGME	Primary	O&O	CBS	2 of 6	4/01/15
Cape Girardeau, Missouri/Paducah, Kentucky	81	KBSI	Primary	O&O	FOX	4 of 6	2/01/14
			Primary	LMA			8/01/13
		WDKA	Second		MNT	5 of 6	
			Second		MNT		
Springfield/Champaign/Decatur, Illinois	83	WICS	Primary	O&O	ABC	3 of 6	12/01/05 (e)
			Primary	O&O			12/01/13
			Primary	OSA	ABC	3 of 6 (m)	12/01/13
			Primary	OSA			12/01/13
			Primary	OSA	FOX	4 of 6	12/01/13
			Second		CW	5 of 6	
			Second				
			Second		FOX	4 of 6 (n)	
			Second		The Country Network		
					ME TV		
					ME TV		
Syracuse, New York	84	WSYT	Primary	O&O	FOX	4 of 6	6/01/15
			Primary	LMA			6/01/15
			Second		MNT	5 of 6	
Madison, Wisconsin	85	WMSN	Primary	O&O	FOX	4 of 6	12/01/13
			Second		The Country Network		



Edgar Filing: SINCLAIR BROADCAST GROUP INC - Form 10-K

The Country Network							
Chattanooga, Tennessee	87	WTVC	Primary	O&O	ABC	1 of 6	8/01/13
		WTVC	Second				
This TV							
Cedar Rapids, Iowa	90	KGAN	Primary	O&O	CBS	3 of 4	2/01/06 (e)
		KFXA	Primary	OSA(j)			2/01/14
		KFXA	Second		FOX	4 of 4	
The Country Network							
Charleston, South Carolina	98	WTAT	Primary	LMA(g)	FOX	4 of 6	12/01/04 (e)
		WMMP	Primary	O&O			12/01/04 (e)
		WMMP	Second		MNT	5 of 6	
The Country Network							
Tallahassee, Florida	106	WTWC	Primary	O&O	NBC	3 of 6	2/01/13 (f)
		WTWC	Second				
The Country Network							
Lansing, Michigan	115	WLAJ	Primary	O&O(u)	ABC	4 of 6	10/01/13
		WLAJ	Second		CW		
Peoria/Bloomington, Illinois	116	WYZZ	Primary	O&O(i)	FOX	not available	12/01/13
		WYZZ	Second				
The Country Network							
Medford, Oregon	140	KTVL	Primary	O&O	CBS	2 of 6	2/01/15
		KTVL	Second				
CW							
Beaumont, Texas	141	KFDM	Primary	O&O	CBS	1 of 6	8/01/14
		KBTV	Primary	OSA(q)			8/01/06 (e)
		KFDM	Second		FOX	3 of 6	
		KBTV	Second				
CW							
Bounce Network							

(a) Rankings are based on the relative size of a station's DMA among the 210 generally recognized DMAs in the United States as estimated by Nielsen as of September 2012.

(b) O & O refers to stations that we own and operate. LMA refers to stations to which we provide programming services pursuant to a local marketing agreement. OSA refers to stations to which we provide or receive sales services pursuant to an outsourcing agreement.

(c) When we negotiate the terms of our network affiliations or program service arrangements, we negotiate on behalf of all of our stations affiliated with that entity simultaneously. This results in substantially similar terms for our stations, including the expiration date of the network affiliations or program service arrangements. A summary of these expiration dates for our primary channels as of December 31, 2012 is as follows:

Table of Contents**Network/****Program Service****Arrangement****Expiration Date**

FOX	Of the 24 agreements, 22 agreements expire on December 31, 2017 and 2 expire on June 30, 2014
MNT	All 19 agreements expire in the Fall of 2014
ABC	Of the 12 agreements, 9 agreements expire on August 31, 2015, 2 agreements expire on December 31, 2015 and 1 agreement expires on December 31, 2017
CW	All 16 agreements expire on August 31, 2016
CBS	Of the 11 agreements, 4 agreements expire on January 31, 2016, 2 agreements expire on June 2, 2016, 1 agreement expires December 31, 2016, 2 agreements expire on April 29, 2017 and 2 agreements expire on December 31, 2018
NBC	Of the 3 agreements, 2 expire on January 1, 2016 and 1 expires on January 1, 2017
Azteca	Agreement expired on February 8, 2013 (t)

(d) The first number represents the rank of each station in its market and is based upon the November 2012 Nielsen estimates of the percentage of persons tuned into each station in the market from 6:00 a.m. to 2:00 a.m., Monday through Sunday. The second number represents the estimated number of television stations designated by Nielsen as local to the DMA, excluding public television stations and stations that do not meet the minimum Nielsen reporting standards (weekly cumulative audience of at least 0.1%) for the Monday through Sunday 6:00 a.m. to 2:00 a.m. time period as of November 2012. This information is provided to us in a summary report by Franco Research Group.

(e) We, or subsidiaries of Cunningham Broadcasting Company (Cunningham), timely filed applications for renewal of these licenses with the FCC. Unrelated third parties have filed petitions to deny or informal objections against such applications. We opposed the petitions to deny and the informal objections and those applications are pending. See *Note 10. Commitments and Contingencies*, in the Notes to our Consolidated Financial Statements for more information.

(f) We timely filed applications for renewal of these licenses with the FCC. We are currently waiting for FCC approval.

(g) The license assets for these stations are currently owned by a subsidiary of Cunningham.

(h) We have entered into an outsourcing agreement with the unrelated third party owner of WNAB-TV to provide certain non-programming related sales, operational and administrative services to WNAB-TV. On July 21, 2005, we filed with the FCC an application to acquire the license television broadcast assets of WNAB-TV in Nashville, Tennessee. The Rainbow / PUSH Coalition ( Rainbow / PUSH ) filed a petition to deny that application and also requested that the FCC initiate a hearing to investigate whether WNAB-TV was improperly operated with WZTV-TV and WUXP-TV, two of our stations also located in Nashville. The FCC is in the process of considering the transfer of the broadcast license and we believe the Rainbow / PUSH petition has no merit.

(i) We have entered into outsourcing agreements with unrelated third parties, under which the unrelated third parties provide certain non-programming related sales, operational and managerial services to these stations. We continue to own all of the assets of these stations and to program and control each station's operations.

## Edgar Filing: SINCLAIR BROADCAST GROUP INC - Form 10-K

(j) On February 1, 2008, we entered into an outsourcing agreement with the unrelated third party owner of KFXA-TV to provide certain non-programming related sales, operational and administrative services to KFXA-TV. During 2008, we entered into an agreement with this unrelated third party for the right to acquire the FCC license of KFXA-TV in Cedar Rapids, Iowa, pending FCC approval.

(k) On February 16, 2012, we entered into an outsourcing agreement with the unrelated third party owner of WWHO-TV to provide certain non-programming related sales, operational and administrative services to WWHO-TV.

(l) WDBB-TV simulcasts the programming broadcast on WTTO-TV pursuant to a programming services agreement. The station rank applies to the combined viewership of these stations. In fourth quarter 2010, the FCC approved Cunningham's acquisition of WDBB's license assets. In February 2011, Cunningham acquired the license assets and we will continue to operate WDBB pursuant to a LMA agreement.

(m) WICD-TV, a satellite of WICS-TV under FCC rules, simulcasts all of the programming aired on WICS-TV except the news broadcasts. WICD-TV airs its own news broadcasts. The station rank applies to the combined viewership of these stations.

(n) WCCU-TV, a satellite of WRSP-TV under FCC rules, simulcasts all of the programming aired on WRSP-TV. The station rank applies to the combined viewership of these stations.

(o) KAAS-TV, KOCW-TV, KSAS-LD-TV and KAAS-LD-TV are satellites of KSAS-TV under FCC rules. These stations simulcast all of the programming aired on KSAS-TV's primary and secondary channels.

(p) These stations are rebroadcasting program content from one of the primary stations listed within the same market.

(q) On December 1, 2012, Deerfield Media, Inc. (Deerfield) purchased from us the license assets of KMYS-TV and WSTR-TV, which we

Table of Contents

previously owned. Also, on December 1, 2012, Deerfield purchased the license assets of WPMI-TV and WJTC-TV from Newport Television LLC (Newport) and KBTW-TV from Nexstar Broadcasting, Inc. (Nexstar). Concurrently, we entered into an outsourcing agreement with Deerfield to provide certain non-programming related sales, operational and administrative services to these stations.

(r) In December 2012, we acquired Newport's rights under the local marketing agreements with WLYH-TV and KMTW-TV, as well as options to acquire the license assets of these stations.

(s) On December 1, 2012, we purchased the non-license assets of WHAM-TV from Newport. Deerfield purchased the license assets of WHAM-TV on February 1, 2013. We entered into an outsourcing agreement with Newport, on December 1, 2012, to provide certain non-programming related sales, operational and administrative services to WHAM-TV, which was terminated upon Deerfield acquiring the license assets on February 1, 2013.

(t) The station is continuing to operate under the existing affiliation agreement with Azteca on a temporary basis while we negotiate a new affiliation agreement.

(u) Effective March 1, 2013, we closed on the sale of the assets of WLAJ-TV.

***Operating Strategy***

Our operating strategy includes the following elements:

*Programming to Attract Viewership.* We seek to target our programming offerings to attract viewership, to meet the needs of the communities in which we serve and to meet the needs of our advertising customers. In pursuit of this strategy, we seek to obtain, at attractive prices, popular syndicated programming that is complementary to each station's network programming. We also seek to broadcast live local and national sporting events that would appeal to a large segment of the local community. Moreover, we produce news at 40 stations in 23 markets, including two stations which have a local news sharing agreement with a competitive station in that market. We have 11 stations which have local news sharing arrangements with a competitive station in that market, which produces the news aired on our station.

Television advertising prices are primarily based on ratings information measured and distributed by Nielsen. In 2010, the Media Rating Council, an independent organization that monitors rating services, revoked Nielsen's accreditation in the 154 markets in which Nielsen measures ratings exclusively by its diary methodology. As of March 1, 2013, approximately 22 of our 46 markets are diary only markets. For certain markets, including some of our diary only markets, we entered into a contract with Rentrak Corporation, an alternative rating service provider, that uses set-top box television measurements to provide us additional measurement information to the ratings services Nielsen provides.

## Edgar Filing: SINCLAIR BROADCAST GROUP INC - Form 10-K

*Attract and Retain High Quality Management.* We believe that much of our success is due to our ability to attract and retain highly skilled and motivated managers at both the corporate and local station levels. We provide a combination of base salary, long-term incentive compensation including equity awards and, where appropriate, cash bonus pay designed to be competitive with comparable employers in the television broadcast industry. A significant portion of the compensation available to certain members of our senior management and our sales force is based on their achievement of certain performance goals.

*Developing Local Franchises.* We believe the greatest opportunity for a sustainable and growing customer base lies within our local communities. Therefore, we have focused on developing a strong local sales force at each of our television stations, which is comprised of approximately 507 sales account executives and local sales managers company-wide. Excluding political advertising revenue, 70.0% of our net time sales were local for the year ended December 31, 2012, compared to 71.1% in 2011. Excluding political, local revenues have increased 21.6% during 2012 versus 2011. Market share survey results reflect that our stations share of the local television advertising market, held stable at approximately 19.0% in 2012 and 2011. Our goal is to grow our local revenues by increasing our market share and by developing new business opportunities.

*Local News.* We believe that the production and broadcasting of local news is an important link to the community and an aid to a station's efforts to expand its viewership. In addition, local news programming can provide access to advertising sources targeted specifically to local news viewers. We assess the anticipated benefits and costs of producing local news prior to the introduction of local news at our stations because a significant investment in capital equipment is required and substantial operating expenses are incurred in introducing, developing and producing local news programming. We also continuously review the performance of our existing news operations to make sure they are economically viable. We have upgraded the majority of our markets to provide high definition (HD) news programming. We expect to roll out HD news programming to our remaining news producing markets in the next couple of years.

Our local news initiatives are an important part of our strategy that has resulted in our entering into 13 local news sharing arrangements with other television broadcasters. We are the provider of news services in two instances while in 11 of our news share arrangements, we are the recipient of services. We believe news share arrangements generally provide both higher viewer

Table of Contents

ratings and revenues for the station receiving the news and generate a profit for the news share provider. Generally, both parties and the local community are beneficiaries of these arrangements.

*Developing New Business.* We are always striving to develop new business models to complement or enhance our existing television broadcast business. We have developed new ways to bundle online, mobile text messaging and social media advertising with our traditional commercial broadcasting model. We plan to continue to expand our efforts in this area. In addition, we are making progress on standardizing and implementing a viable business platform for mobile DTV. See *Mobile Digital Broadcast Television (mobile DTV)* section below. We continue to explore new opportunities and plan to implement new initiatives in 2013.

*Retransmission Consent Agreements.* We have retransmission consent agreements with MVPDs, such as cable, satellite and telecommunications operators in our markets. MVPDs compensate us for the right to retransmit our broadcast signals. Our successful negotiations with MVPDs have created agreements that now produce meaningful sustainable revenue streams.

*Ownership Duopolies and Utilization of Local Marketing Agreements.* We have sought to increase our revenues and improve our margins through the ownership of two stations in a single market, called a duopoly, and by providing programming services pursuant to a LMA to a second station in DMAs where we already own one station. Duopolies and LMAs allow us to realize significant economies of scale in marketing, programming, overhead and capital expenditures. We also believe these arrangements enable us to air popular programming and contribute to the diversity of programming within each DMA. Although under the FCC ownership rules released in June 2003 (the 2003 Rules), we would be allowed to continue to program most of the stations with which we have a LMA, in the absence of a waiver, the 2003 Rules would require us to terminate or modify three of our LMAs. Although there can be no assurances, we have studied the application of the 2003 Rules to our markets and believe we qualify for waivers for such stations. Under the ownership rules established in 2008, we may be required to terminate or modify three more of our LMAs that we executed after November 5, 1996. We also may be required to terminate or modify three other LMAs that we executed prior to November 5, 1996, if the FCC subsequently initiates a case-by-case review of those LMAs and determines not to extend the grandfathering period. For additional information, refer to *Risk Factors - The FCC's multiple ownership rules limit our ability to operate multiple television stations in some markets and may result in a reduction in our revenue or prevent us from reducing costs. Changes in these rules may threaten our existing strategic approach to certain television markets.*

*Use of Outsourcing Agreements / Joint Sales Agreements (JSAs).* In addition to our LMAs, we have entered into nine (and may seek opportunities for additional) outsourcing agreements in which our stations provide or are provided various non-programming related services such as sales, operational and managerial services to or by other stations within the same markets. Pursuant to these agreements, seven of our stations currently provide services to one or more stations in each's respective market and another party provides services to two of our stations. We believe the outsourcing structure allows stations to achieve operational efficiencies and economies of scale, which should improve broadcast cash flow and competitive positions and better serve the viewers in the community. While television JSAs are not currently attributable, as that term is defined by the FCC, on August 2, 2004, the FCC released a notice of proposed rulemaking seeking comments on its tentative conclusion that television JSAs should be attributable. The FCC is also considering the attribution of JSAs as part of its 2010 Quadrennial Regulatory Review of its broadcast ownership rules, released on December 22, 2011. Both of these proceedings remain pending and we cannot predict the outcome, nor can we predict how many changes, together with possible changes to ownership rules, would apply to our existing outsourcing agreements. See *Local Marketing Agreements* under the *Federal Regulation of Television Broadcasting* section below and *Risk Factors - The FCC's multiple ownership rules limit our ability to operate multiple television stations in some markets and may result in a reduction in our revenue or prevent us from reducing costs. Changes in these rules may threaten our existing strategic approach to certain television markets.*

*Multi-Channel Digital Broadcasting.* FCC rules allow broadcasters to transmit additional digital channels within the spectrum allocated to each FCC license holder. This provides viewers with additional programming alternatives at no additional cost to them. We are airing second and third digital channels comprised of: CBS (rebroadcasted content from other primary channels within the same market); The CW;

## Edgar Filing: SINCLAIR BROADCAST GROUP INC - Form 10-K

MyNetworkTV; This TV, independent programming; ME TV; Weather Radar; The Weather Authority Network; Live Well Network, Antenna TV; Bounce Network; the Country Network; and Estrella TV, LATV, Azteca and Telemundo, Spanish-language television networks. In addition, as noted below, we believe mobile DTV will serve as an additional use of our digital spectrum. We may consider other alternative programming formats that we could air using our multi-channel digital spectrum space with the goal towards achieving higher profits and community service.

*Mobile Digital Broadcast Television (mobile DTV).* We are a founding member of the Open Mobile Video Coalition (OMVC) and Mobile500 (M500). The OMVC was an alliance of U.S. commercial and public broadcasters formed to accelerate the development and rollout of mobile DTV products and services. The OMVC, which is now part of the National Association of Broadcasters (NAB), was committed to maximizing and developing the full potential of the digital television spectrum. We believe mobile DTV will quickly provide for another viable use of our local stations' programming. The OMVC, working within the Advanced Television Systems Committee (ATSC), has developed a mobile broadcasting standard that allows digital television to be broadcast to numerous mobile devices including smart phones, laptop computers, tablet devices, video screens in vehicles, portable video players and other mobile and portable devices. In order to receive mobile DTV signals, these devices require a mobile DTV

Table of Contents

receiver. We believe that the technical ability to receive our television broadcast content on mobile devices will be attractive to individuals. We have installed and are running mobile DTV services at WSYX-TV and WTTE-TV both in Columbus, Ohio, and Cunningham has been approved to test advanced services (including mobile broadcasting and 4K-Ultra High Definition TV) on WNUV-TV in Baltimore. With respect to WNUV-TV, the FCC granted the station authority to operate an experimental facility in order to evaluate the performance of the Second Generation Digital Video Broadcasting Terrestrial (DVB-T2) throughout the WNUV-TV service area. We will gauge our plans on the successes of these first markets, and deploy within remaining markets accordingly.

*Control of Operating and Programming Costs.* By employing a disciplined approach to managing programming acquisition and other costs, we have been able to achieve operating margins that we believe are very competitive within the television broadcast industry. We believe our national reach of over 27.3% of the country provides us with a strong position to negotiate with programming providers and, as a result, the opportunity to purchase high quality programming at more favorable prices. Moreover, we emphasize control of each of our station's programming and operating costs through program-specific profit analysis, detailed budgeting, regionalization of staff and detailed long-term planning models.

*Popular Sporting Events.* At some of our stations, we have been able to acquire local television broadcast rights for certain sporting events, including NBA basketball, Major League Baseball, NFL football, NHL hockey, ACC basketball and both Big Ten and SEC football and basketball and certain high school sports. We seek to expand our sports broadcasting in DMAs as profitable opportunities arise such as our purchase of the Ring of Honor professional wrestling franchise in May 2011. Our CW and MyNetworkTV stations generally face fewer preemption restrictions on broadcasting live local sporting events compared with our FOX, ABC, CBS and NBC stations, which are required to broadcast a greater number of hours of programming supplied by the networks. In addition, our stations that are affiliated with FOX, ABC, CBS and NBC have network arrangements to broadcast certain NBA basketball games, MLB baseball games, NFL football games, NHL hockey games, NASCAR races and PGA golf events, as well as other popular sporting events.

*Strategic Realignment of Station Portfolio.* We continue to examine our television station group portfolio in light of the 2003 Rules. For a summary of these rules, refer to *Ownership Matters*, discussed under *Federal Regulation of Television Broadcasting*. Our objective has been to build our local franchises in the markets we deem strategic. We routinely review and conduct investigations of potential television station acquisitions, dispositions and station swaps. At any given time, we may be in discussions with one or more television station owners.

*Non-broadcast Investments.* We have sought ways to diversify our business and return additional value to our shareholders through investments in non-broadcast based businesses and real estate. We carry investments in various companies from different industries including sign design and fabrication and security alarm monitoring and bulk acquisition. In addition, we invest in various real estate ventures including developmental land, operating commercial real estate properties and apartments. We also invest in private equity and structured debt / mezzanine financing investment funds. Currently, operating results from our investments represent a small portion of our overall operating results. Our ability to make additional investments is limited by the restrictions of our amended senior secured credit facility (Bank Credit Agreement). Activity related to our investments is included in our other operating divisions segment.

## **FEDERAL REGULATION OF TELEVISION BROADCASTING**

The ownership, operation and sale of television stations are subject to the jurisdiction of the FCC, which acts under the authority granted by the Communications Act of 1934, as amended (the Communications Act). Among other things, the FCC assigns frequency bands for broadcasting; determines the particular frequencies, locations and operating power of stations; issues, renews, revokes and modifies station licenses; regulates equipment used by stations; adopts and implements regulations and policies that directly or indirectly affect the ownership, operation and



employment practices of stations; and has the power to impose penalties for violations of its rules and regulations or the Communications Act.

The following is a brief summary of certain provisions of the Communications Act, the Telecommunications Act of 1996 (the 1996 Act) and specific FCC regulations and policies. Reference should be made to the Communications Act, the 1996 Act, FCC rules and the public notices and rulings of the FCC for further information concerning the nature and extent of federal regulation of broadcast stations.

***License Grant and Renewal***

Television stations operate pursuant to broadcasting licenses that are granted by the FCC for maximum terms of eight years and are subject to renewal upon application to the FCC. During certain periods when renewal applications are pending, petitions to deny license renewals can be filed by interested parties, including members of the public. The FCC will generally grant a renewal application if it finds:

Table of Contents

- that the station has served the public interest, convenience and necessity;
- that there have been no serious violations by the licensee of the Communications Act or the rules and regulations of the FCC; and
- that there have been no other violations by the licensee of the Communications Act or the rules and regulations of the FCC that, when taken together, would constitute a pattern of misconduct.

All of the stations that we currently own and operate or provide programming services or sales services to, pursuant to LMAs or other agreements, are presently operating under regular licenses, which expire as to each station on the dates set forth under *Television Broadcasting* above. Although renewal of a license is granted in the vast majority of cases even when petitions to deny are filed, there can be no assurance that the license of any station will be renewed.

In 2004, we filed with the FCC an application for the license renewal of WBFF-TV in Baltimore, Maryland. Subsequently, an individual named Richard D. Amato filed a petition to deny the application. In 2004, we also filed with the FCC applications for the license renewal of television stations: 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 and WMMP-TV, Charleston, South Carolina. An organization calling itself Free Press filed a petition to deny the renewal applications of these stations and also the renewal applications of two other stations in those markets, which we program pursuant to LMAs: WTAT-TV, Charleston, South Carolina and WMYA-TV, Anderson, South Carolina. Several individuals and an organization named Sinclair Media Watch also filed informal objections to the license renewal applications of WLOS-TV and WMYA-TV, raising essentially the same arguments presented in the Free Press petition. The FCC is in the process of considering these renewal applications and we believe the objections have no merit.

On July 21, 2005, we filed with the FCC an application to acquire the license television broadcast assets of WNAB-TV in Nashville, Tennessee. The Rainbow / PUSH Coalition (Rainbow / PUSH) filed a petition to deny that application and also requested that the FCC initiate a hearing to investigate whether WNAB-TV was improperly operated with WZTV-TV and WUXP-TV, two of our stations located in the same market as WNAB-TV. The FCC is in the process of considering the transfer of the broadcast license and we believe the Rainbow / PUSH petition has no merit.

On August 1, 2005, we filed applications with the FCC requesting renewal of the broadcast licenses for WICS-TV and WICD-TV in Springfield / Champaign, Illinois. Subsequently, various viewers filed informal objections requesting that the FCC deny these renewal applications. On September 30, 2005, we filed an application with the FCC for the renewal of the broadcast license for KGAN-TV in Cedar Rapids, Iowa. On December 28, 2005, an organization calling itself Iowans for Better Local Television filed a petition to deny that application. In April 2009, the FCC granted the license renewal application for WICD-TV. The FCC is in the process of considering the WICS-TV and KGAN-TV renewal applications and we believe the objections and petitions requesting denial have no merit.

On August 1, 2005, we filed applications with the FCC requesting renewal of the broadcast licenses for WCGV-TV and WVTV-TV in Milwaukee, Wisconsin. On November 1, 2005, the Milwaukee Public Interest Media Coalition filed a petition to deny these renewal applications. On June 13, 2007, the Video Division of the FCC denied the petition to deny, and subsequently, the Milwaukee Public Interest Media Coalition filed a petition for reconsideration of that decision, which we opposed. In July 2008, the Video Division granted the renewal application of WVTV-TV and separately denied the Milwaukee Public Interest Media Coalition's petition for reconsideration. On August 11, 2008, the Milwaukee Public Interest Media Coalition and another organization filed another petition for reconsideration of the decision, which we opposed. On January 12, 2010, the FCC dismissed the second petition for reconsideration. On February 16, 2010, the Milwaukee Public Interest Media Coalition filed an application for review of the January 2010 dismissal decision, which we opposed. On December 12, 2010, the

## Edgar Filing: SINCLAIR BROADCAST GROUP INC - Form 10-K

FCC dismissed the application for review. On January 11, 2011, the Milwaukee Public Interest Media Coalition filed a second application for review seeking review of the December 2010 dismissal decision, which we opposed. The WCGV-TV renewal of license application remains pending.

Action on many license renewal applications, including those we have filed, has been delayed because of the pendency of complaints that programming aired by the various networks contained indecent material and complaints regarding alleged violations of sponsorship identification rules. We cannot predict when the FCC will address these complaints and act on the renewal applications. We continue to have operating authority until final action is taken on our renewal applications.

The FCC has made it difficult for us to predict the impact on our license renewals from allegations related to the airing of indecent material that may arise in the ordinary course of our business. For example, on Veterans Day in November 2004, we preempted (did not air) Saving Private Ryan, a program that was aired during ABC's network programming time. We were concerned that since the program contained the use of the F-word (indecent material as defined by the FCC) airing the programming could result in a fine or other negative consequences for one or more of our ABC stations. In February 2005, the

Table of Contents

FCC dismissed all complaints filed against ABC stations regarding this program. The FCC's decision justified what some may consider indecent material as appropriate in the context of the program. Although this ruling has expanded the programming opportunities of our stations, it still leaves us at risk because what might be determined as legitimate context by us may not be deemed so by the FCC and the FCC will not rule beforehand as this may be considered a restriction of free speech. For example, in September 2006, we preempted a CBS network documentary on the events that happened on September 11, 2001 because the program contained what some have argued is indecent material and the FCC would not provide, in advance of the airing of the documentary, any guidance on whether that material was appropriate in the context of the program. In 2007, the U.S. Court of Appeals for the Second Circuit held that the FCC's indecency policy regarding "fleeting expletives" was arbitrary and capricious when the FCC determined that "fleeting expletives" aired during the *Golden Globes* and *Billboard Music Awards* violated its indecency rules. The FCC challenged the decision and the case was argued before the Supreme Court in November 2008. Also in 2008 the U.S. Court of Appeals for the Third Circuit rejected an FCC decision concluding, among other things, that a fleeting display of nudity during the Superbowl halftime show was indecent. On April 28, 2009, the Supreme Court overturned the *Golden Globes* and *Billboard Music Awards* decision of the Second Circuit and held that the FCC had adequately justified its departure from prior decisions in determining that it could sanction a station for a single F-word or S-word broadcast on that station. However, the Supreme Court also remanded the case back to the Second Circuit for further consideration to resolve any First Amendment Constitutional issues raised by the FCC's enforcement policy. On May 16, 2009, the Supreme Court remanded the Superbowl halftime show case to the Third Circuit in order to consider the impact of the Supreme Court's *Golden Globes* and *Billboard Music Awards* decision and to consider the same First Amendment issues that were remanded to the Second Circuit. On July 13, 2010, the Second Circuit struck down the FCC's indecency policy in its entirety. On June 21, 2012, the Supreme Court vacated the Second Circuit's decision that the FCC's enforcement of its indecency rules was unconstitutional. Although the Supreme Court refused to address whether the FCC's indecency rules and the enforcement of them was unconstitutional, it did find that the agency did not give ABC and Fox "fair warning" that they could be fined for so-called "fleeting expletives" and nudity. The Court's opinion permits the FCC to modify its current indecency policy. It is unclear when the FCC might act as a result of the Court's ruling and the FCC's unclear policy make it difficult for us to determine what may be indecent programming.

**Ownership Matters**

*General.* The Communications Act prohibits the assignment of a broadcast license or the transfer of control of a broadcast license without the prior approval of the FCC. In determining whether to permit the assignment or transfer of control of, or the grant or renewal of, a broadcast license, the FCC considers a number of factors pertaining to the licensee, including compliance with various rules limiting common ownership of media properties, the character of the licensee and those persons holding attributable interests in that licensee and compliance with the Communications Act's limitations on ownership by non-U. S. citizens or their representatives or by a foreign government or a representative thereof, or by any corporation organized under the laws of a foreign country (collectively, aliens).

To obtain the FCC's prior consent to assign a broadcast license or transfer control of a broadcast license, appropriate applications must be filed with the FCC. If the application involves a "substantial change" in ownership or control, the application must be placed on public notice for a period of approximately 30 days during which petitions to deny the application may be filed by interested parties, including members of the public. If the application does not involve a "substantial change" in ownership or control, it is a "pro forma" application. The "pro forma" application is not subject to petitions to deny or a mandatory waiting period, but is nevertheless subject to having informal objections filed against it. If the FCC grants an assignment or transfer application, interested parties have approximately 30 days from public notice of the grant to seek reconsideration or review of the grant. Generally, parties that do not file initial petitions to deny, or informal objections against the application, face difficulty in seeking reconsideration or review of the grant. The FCC normally has an additional 10 days to set aside such grant on its own motion. When passing on an assignment or transfer application, the FCC is prohibited from considering whether the public interest might be served by an assignment or transfer to any party other than the assignee or transferee specified in the application.

The FCC generally applies its ownership limits to "attributable" interests held by an individual, corporation, partnership or other association. In the case of corporations holding, or through subsidiaries controlling, broadcast licenses, the interests of officers, directors and those who, directly or indirectly, have the right to vote 5% or more of the corporation's stock (or 20% or more of such stock in the case of insurance companies, investment companies and bank trust departments that are passive investors) are generally attributable. In August 1999, the FCC

## Edgar Filing: SINCLAIR BROADCAST GROUP INC - Form 10-K

revised its attribution and multiple ownership rules and adopted the equity-debt-plus rule that causes certain creditors or investors to be attributable owners of a station. Under this rule, a major programming supplier (any programming supplier that provides more than 15% of the station's weekly programming hours) or same-market media entity will be an attributable owner of a station if the supplier or same-market media entity holds debt or equity, or both, in the station that is greater than 33% of the value of the station's total debt plus equity. For the purposes of this rule, equity includes all stock, whether voting or non-voting, and equity held by insulated limited partners in partnerships. Debt includes all liabilities whether long-term or short-term. In addition, LMAs are attributable where a licensee owns a television station and programs more than 15% of another television station in the same market.

Table of Contents

The Communications Act prohibits the issuance of a broadcast license to, or the holding of a broadcast license by, any corporation of which more than 20% of the capital stock is owned of record or voted by aliens. The Communications Act also authorizes the FCC, if the FCC determines that it would be in the public interest, to prohibit the issuance of a broadcast license to, or the holding of a broadcast license by, any corporation directly or indirectly controlled by any other corporation of which more than 25% of the capital stock is owned of record or voted by aliens. The FCC has issued interpretations of existing law under which these restrictions in modified form apply to other forms of business organizations, including partnerships.

As a result of these provisions, the licenses granted to our subsidiaries by the FCC could be revoked if, among other restrictions imposed by the FCC, more than 25% of our stock were directly or indirectly owned or voted by aliens. Sinclair and its subsidiaries are domestic corporations, and the members of the Smith family (who together hold approximately 81.3% of the common voting rights of Sinclair) are all United States citizens. Our amended and restated Articles of Incorporation (the Amended Certificate) contain limitations on alien ownership and control that are substantially similar to those contained in the Communications Act. Pursuant to the Amended Certificate, we have the right to repurchase alien-owned shares at their fair market value to the extent necessary, in the judgment of the Board of Directors, to comply with the alien ownership restrictions.

In February 2008, the FCC released a Report and Order that, with the exception of the newspaper / broadcast cross-ownership rule, essentially re-adopts the ownership rules the FCC originally introduced in 1999 and has enforced since then.

The relevant 2008 ownership rules are as follows:

*Radio / Television Cross-Ownership Rule.* The FCC's radio / television cross-ownership rule (the "one to a market" rule) generally permits a party to own a combination of up to two television stations and six radio stations in the same market, depending on the number of independent media voices in the market.

*Newspaper / Broadcast Cross-Ownership Rule.* The FCC's rule generally prohibits the common ownership of a radio or television broadcast station and a daily newspaper in the same market. However, the FCC will presume that, in the top 20 DMAs, it is not inconsistent with the public interest for one entity to own a daily newspaper and a radio station or, under the following circumstances, a daily newspaper and a television station if: (1) the television station is not ranked among the top-four stations in the DMA and (2) at least eight independent major media voices remain in the DMA. The FCC will presume that all other newspaper / broadcast mergers are not in the public interest, but it will allow applicants to seek a waiver and rebut this presumption by clear and convincing evidence that, post-merger, the merged entity will increase the diversity of independent news outlets and increase competition among independent news sources in the relevant market.

In addition, expansion of our broadcast operations on both a local and national level will continue to be subject to the FCC's ownership rules, Department of Justice (DOJ) review and any changes the FCC or Congress may adopt. On December 22, 2011, the FCC released a Notice of Proposed Rulemaking in its Quadrennial Review of the Multiple Ownership Rules and is considering changes to the FCC's rules regarding broadcast-newspaper cross ownership restrictions, the possible elimination of rules restricting the ownership of radio and TV in the same market, the potential attribution of TV JSAs and SSAs meaning potentially making JSAs and SSAs count as ownership interests in a multiple ownership analysis and other possible revisions to the local radio and TV ownership limitations or exceptions that would allow for waivers of the limits in defined circumstances. The proceeding remains pending. Any further relaxation of the FCC's ownership rules may increase the level of competition in one or more markets in which our stations are located, more specifically to the extent that any of our competitors may have greater resources and thereby may be in a superior position to take advantage of such changes. Conversely, any such relaxation or invalidation of such rules may provide us the opportunity to expand should we have the resources and find the terms advantageous.

*Dual Network Rule.* The four major television networks, FOX, ABC, CBS and NBC, are prohibited, absent a waiver, from merging with each other. In May 2001, the FCC amended its dual network rule to permit the four major television networks to own, operate, maintain or control other television networks, such as The CW or MyNetworkTV.

*National Ownership Rule.* As of 2004, by statute, the national television viewing audience reach cap is 39%. Under this rule, where an individual or entity has an attributable interest in more than one television station in a market, the percentage of the national television viewing audience encompassed within that market is only counted once. Additionally, since historically, very high frequency, or VHF stations (channels 2 through 13) have shared a larger portion of the market than ultra high frequency, or UHF stations (channels 14 through 69), only half of the households in the market area of any UHF station are included when calculating an entity's national television viewing audience (commonly referred to as the UHF discount). Due to the elimination of the analog signal and switch to digital in 2009, the FCC has indicated that it may institute a future proceeding to assess whether it should alter or eliminate the UHF discount.

Table of Contents

All but nine of the stations we own and operate, or to which we provide programming services, are UHF. We reach over 27% of U. S. television households or 14.6% taking into account the FCC's UHF discount.

*Local Television (Duopoly) Rule.* A party may own television stations in adjoining markets, even if there is Grade B overlap between the two stations' broadcast signals and generally may own two stations in the same market:

- if there is no Grade B overlap between the stations; or
- if the market containing both the stations will contain at least eight independently owned full-power television stations post-merger (the eight voices test) and not more than one station is among the top-four ranked stations in the market.

In addition, a party may request a waiver of the rule to acquire a second or third station in the market if the station to be acquired is economically distressed or not yet constructed and there is no party who does not own a local television station who would purchase the station for a reasonable price.

*Antitrust Regulation.* DOJ and the Federal Trade Commission have increased their scrutiny of the television industry since the adoption of the 1996 Act and have reviewed matters related to the concentration of ownership within markets (including LMAs) even when ownership or the LMA in question is permitted under the laws administered by the FCC or by FCC rules and regulations. The DOJ takes the position that an LMA entered into in anticipation of a station's acquisition with the proposed buyer of the station constitutes a change in beneficial ownership of the station which, if subject to filing under the Hart-Scott-Rodino Anti Trust Improvements Act, cannot be implemented until the waiting period required by that statute has ended or been terminated.

***Local Marketing Agreements***

Certain of our stations have entered into what have commonly been referred to as local marketing agreements or LMAs. One typical type of LMA is a programming agreement between two separately owned television stations serving the same market, whereby the licensee of one station programs substantial portions of the broadcast day and sells advertising time during such programming segments on the other licensee's station subject to the latter licensee's ultimate editorial and other controls. We believe these arrangements allow us to reduce our operating expenses and enhance profitability.

If we are required to terminate or modify our LMAs, our business could be adversely affected in several ways, including losses on investments and termination penalties. For more information on the risks, see *Risk Factors* "The FCC's multiple ownership rules limit our ability to operate multiple television stations in some markets and may result in a reduction in our revenue or prevent us from reducing costs. Changes in these rules may threaten our existing strategic approach to certain television markets" "Changes in rules on local marketing agreements."

The following paragraphs discuss various proceedings relevant to our LMAs.



In 1999, the FCC established a new local television ownership rule. LMAs fell under this rule, however, the rule grandfathered LMAs that were entered into prior to November 5, 1996, and permitted the applicable stations to continue operations pursuant to the LMAs until the conclusion of the FCC's 2004 biennial review. The FCC stated it would conduct a case-by-case review of grandfathered LMAs and assess the appropriateness of extending the grandfathering periods. The FCC did not initiate any review of grandfathered LMAs in 2004 or as part of its 2006 quadrennial review. We do not know when, or if, the FCC will conduct any such review of grandfathered LMAs. For LMAs executed on or after November 5, 1996, the FCC required compliance with the 1999 local television ownership rule by August 6, 2001. We challenged the 1999 rules in the U.S. Court of Appeals for the D.C. Circuit (D.C. Circuit), resulting in the exclusion of post-November 5, 1996 LMAs from the 1999 rules. In 2002, the D.C. Circuit ruled in *Sinclair Broadcast Group, Inc. v. F.C.C.*, 284 F.3d 114 (D.C. Cir. 2002) that the 1999 local television ownership rule was arbitrary and capricious and sent the rule back to the FCC for further refinement.

In 2003, the FCC revised its ownership rules, including the local television ownership rule; however the U. S. Court of Appeals for the Third Circuit (Third Circuit) did not enable the 2003 rules to become effective and sent the 2003 rules back to the FCC for further refinement. Due to the court decisions, the FCC concluded the 1999 rules could not be justified as necessary in the public interest and, as a result, we took the position that an issue exists regarding whether the FCC has any current legal right to enforce any rules prohibiting the acquisition of television stations. Several parties, including us, filed petitions with the Supreme Court of the United States seeking review of the Third Circuit decision, but the Supreme Court denied the petitions in June 2005.

In July 2006, the FCC released a Further Notice of Proposed Rule Making seeking comment on how to address the issues raised by the Third Circuit's decision. In January 2008, the FCC released an order containing ownership rules that re-adopted the 1999 rules. On February 29, 2008, several parties, including us, separately filed petitions for review in a number of federal appellate courts challenging the 1999 rules. Those petitions were consolidated in the U.S. Court of Appeals for the Ninth Circuit (Ninth Circuit) and in November 2008, transferred by the Ninth Circuit to the Third Circuit and on July 7, 2011, the Third Circuit upheld the FCC's local television ownership rules. On December 5, 2011, we joined with a number of other parties on a Petition for a

Table of Contents

Writ of Certiorari filed with the Supreme Court requesting that the Court overrule the decision of the Third Circuit. That request was denied by the Supreme Court.

On November 15, 1999, we entered into an agreement to acquire WMYA-TV (formerly WBSC-TV) in Anderson, South Carolina from Cunningham, but that transaction was denied by the FCC. Since none of the FCC rule changes ever became effective, we filed a petition for reconsideration with the FCC and amended our application to acquire the license of WMYA-TV. We also filed applications in November 2003 to acquire the license assets of the remaining five Cunningham stations: WRGT-TV, Dayton, Ohio; WTAT-TV, Charleston, South Carolina; WVAH-TV, Charleston, West Virginia; WNUV-TV, Baltimore, Maryland; and WTTE-TV, Columbus, Ohio. Rainbow / PUSH filed a petition to deny these five applications and to revoke all of our licenses. The FCC dismissed our applications and denied the Rainbow / PUSH petition due to the above mentioned 2003 Third Circuit decision. Rainbow / PUSH filed a petition for reconsideration of that denial and we filed an application for review of the dismissal. In 2005, we filed a petition with the D. C. Circuit requesting that the Court direct the FCC to take final action on our applications, but that petition was dismissed. On January 6, 2006, we submitted a motion to the FCC requesting that it take final action on our applications. The applications and the associated petition to deny are still pending. We believe the Rainbow / PUSH petition is without merit.

***The Satellite Home Viewer Act (SHVA), The Satellite Home Viewer Improvement Act (SHVIA) and the Satellite Home Viewer Extension and Reauthorization Act (SHVERA)***

In 1988, Congress enacted the Satellite Home Viewer Act (SHVA), which enabled satellite carriers to provide broadcast programming to those satellite subscribers who were unable to obtain broadcast network programming over-the-air. SHVA did not permit satellite carriers to retransmit local broadcast television signals directly to their subscribers. The Satellite Home Viewer Improvement Act of 1999 (SHVIA) revised SHVA to reflect changes in the satellite and broadcasting industry. This legislation allowed satellite carriers, until December 31, 2004, to provide local television signals by satellite within a station market, and effective January 1, 2002, required satellite carriers to carry all local signals in any market where they carry any local signals. On or before July 1, 2001, SHVIA required all television stations to elect to exercise certain must-carry or retransmission consent rights in connection with their carriage by satellite carriers. We have entered into compensation agreements granting the two primary satellite carriers retransmission consent to carry all our stations. In December 2004, President Bush signed into law the Satellite Home Viewer Extension and Reauthorization Act (SHVERA). SHVERA extended, until December 31, 2009, the rights of broadcasters and satellite carriers under SHVIA to retransmit local television signals by satellite. SHVERA also authorized satellite delivery of distant network signals, significantly viewed signals and local low-power television station signals into local markets under defined circumstances. With respect to digital signals, SHVERA established a process to allow satellite carriers to retransmit distant network signals and significantly viewed signals to subscribers under certain circumstances. In November 2005, the FCC completed a rulemaking proceeding enabling the satellite carriage of significantly viewed signals. In December 2005, the FCC concluded a study, as required by SHVERA, regarding the applicable technical standards for determining when a subscriber may receive a distant digital network signal. The carriage of programming from two network stations to a local market on the same satellite system could result in a decline in viewership of the local network station, adversely impacting the revenues of our affected owned and programmed stations. Congress extended SHVERA until December 31, 2014.

***Must-Carry / Retransmission Consent***

Pursuant to the Cable Act of 1992, television broadcasters are required to make triennial elections to exercise either certain must-carry or retransmission consent rights in connection with their carriage by cable systems in each broadcaster's local market. We have elected to exercise our retransmission consent rights with respect to all our stations. This election was made by October 1, 2011 for the period January 1, 2012 through December 31, 2014. By electing to exercise must-carry rights, a broadcaster demands carriage and receives a specific channel on cable systems within its DMA, in general, as defined by the Nielsen DMA Market and Demographic Rank Report of the prior year. These must-carry

rights are not absolute and their exercise is dependent on variables such as:

- the number of activated channels on a cable system;
- the location and size of a cable system; and
- the amount of programming on a broadcast station that duplicates the programming of another broadcast station carried by the cable system.

Therefore, under certain circumstances, a cable system may decline to carry a given station. Alternatively, if a broadcaster chooses to exercise retransmission consent rights, it can prohibit cable systems from carrying its signal or grant the appropriate cable system the authority to retransmit the broadcast signal for a fee or other consideration. The FCC has clarified that cable systems need only carry a broadcast station's primary video stream and not any of the station's other programming streams in those situations where a station chooses to transmit multiple programming streams.

Table of Contents

*Syndicated Exclusivity / Territorial Exclusivity*

The FCC's syndicated exclusivity rules allow local broadcast television stations to demand that cable operators black out syndicated non-network programming carried on distant signals (i.e. signals of broadcast stations, including so-called superstations, which serve areas substantially removed from the cable systems' local community). The FCC's network non-duplication rules allow local broadcast, network affiliated stations to require that cable operators black out duplicate network programming carried on distant signals. However, in a number of markets in which we own or program stations affiliated with a network, a station that is affiliated with the same network in a nearby market is carried on cable systems in our markets. This is not necessarily a violation of the FCC's network non-duplication rules. However, the carriage of two network stations on the same cable system could result in a decline of viewership, adversely affecting the revenues of our owned or programmed stations.

*Digital Television*

The FCC has taken a number of steps to implement digital television (DTV) broadcasting services and has ruled that television broadcast licensees may use their digital channels for a wide variety of services such as HD television, multiple standard definition television programming, audio, data and other types of communications, subject to the requirement that each broadcaster provide at least one free video channel equal in quality to the current technical standard and further subject to the requirement that broadcasters pay a fee of 5% of gross revenues from any DTV ancillary or supplementary service for which there is a subscription fee or for which the licensee receives a fee from a third party.

DTV channels are generally located in the range of channels from channel 2 through channel 51. All commercial stations were required to begin digital broadcasting on May 1, 2002. In 2005, Congress passed legislation establishing a hard deadline of February 17, 2009 by which broadcasters were required to cease using their analog channel. On February 4, 2009, Congress passed the DTV Delay Act that extended the date for the completion of the DTV transition from February 17, 2009 to June 12, 2009. All of the television stations we own or to which we provide services are operating on authorized post-transition digital facilities as of March 1, 2013.

We operate our television stations at different power levels pursuant to our FCC licenses, applicable permits or special temporary authority granted by the FCC. The following table is a summary of our operating status as of March 1, 2013:

DTV Operating Status	# of Stations(a)
Owned stations operating with approved digital license, at full power (b)	61
LMA / JSA stations operating with approved digital license, at full power	23
	84

(a) WWHB-CA and WTCN-CA both in West Palm Beach, Florida, are two low power analog stations not included in this table.

(b) WLAJ-TV was excluded from number of stations because it was sold effective March 1, 2013.

## Edgar Filing: SINCLAIR BROADCAST GROUP INC - Form 10-K

Implementation of digital television has imposed substantial additional costs on our television stations because of the need to replace equipment. In addition, the FCC has proposed imposing new public interest requirements on television licensees in exchange for their receipt of DTV channels.

We believe that the following developments regarding the FCC's digital regulations may have effects on us:

*Digital must-carry.* In February 2005, the FCC adopted an order stating that cable television systems are required to carry a must-carry station's primary video stream but is not required to carry any of the station's other programming streams in those situations where a station chooses to transmit multiple programming streams. On September 11, 2007, the FCC adopted an order requiring, after the digital transition, all cable operators to make the primary digital stream of must-carry television stations viewable by all cable subscribers, regardless of whether they are using analog or digital television equipment. The FCC indicated that it would consider requests for a waiver of this requirement by small cable system operators, where compliance with that requirement would be unduly burdensome. In March 2008, the FCC adopted an order requiring satellite carriers to carry digital-only stations upon request in markets in which the satellite carriers are providing local-into-local service pursuant to the statutory copyright license. The FCC also required that satellite carriers carry the HD signals of digital-only stations in HD format if any broadcaster in the same market is carried in HD. This latter requirement is being implemented over a four-year phase-in period which started in February 2009. Accordingly, until February 2013, satellite carriers will be permitted in a certain percentage of markets to choose what HD signals it will carry. Any impairment on viewers' ability to obtain our digital HD signals retransmitted by satellite in markets in which we operate could result in a loss of viewers for those stations and could negatively impact station revenues. On June 11, 2012, the FCC issued an Order which sunsets the commission's viewability rules for larger cable systems on December

Table of Contents

12, 2012, which requires hybrid, analog-digital cable systems to offer viewers TV broadcast signals in an analog format so that viewers with older analog television sets can continue to receive them.

*Multi-Channel Digital Broadcasting.* FCC rules allow broadcasters to transmit additional digital channels within the spectrum allocated to each FCC license holder. This provides viewers with additional programming alternatives at no additional cost to them. Our television stations are experimenting with broadcasting on second and third digital channels in accordance with these rules, airing various alternative programming formats. We are airing second or third digital channels comprised of: The CW; MyNetworkTV, ME TV, Weather Radar, The Weather Authority Network, Live Well Network, Antenna TV, Bounce Network and the Country Network, music video providers; This TV, independent programming; Estrella TV, LATV, Azteca and Telemundo, Spanish-language television networks; and CBS, rebroadcasted content from other primary channels within the same market.

We may consider other alternative programming formats that we could air using our multi-channel digital spectrum space with the goal towards achieving higher profits and community service.

*Capital and operating costs.* We have incurred and will continue to incur costs to replace equipment in certain stations in order to provide high definition news programming.

*Children's programming.* In 2004, the FCC established children's educational and informational programming obligations for digital multicast broadcasters and placed restrictions on the increasing commercialization of children's programming on both analog and digital broadcast and cable television systems. In addition to imposing its limit as to the amount of commercial matter in children's programming (10.5 minutes per hour on weekends and 12 minutes per hour on weekdays) on all digital or video programming, free or pay, directed to children 12 years old and younger, the FCC also mandated that digital broadcasters air an additional half hour of core children's programming for every 28-hour block of free video programming provided in addition to the main DTV program stream. The additional core children's programming requirement for digital broadcasters took effect on January 2, 2007.

*Emergency Alert System.* In November 2005, the FCC adopted an order requiring that digital broadcasters comply with the FCC's present Emergency Alert System (EAS) rules. It also issued a further notice of proposed rulemaking seeking comments on what actions the FCC should take to expedite the development of a digitally based public alert and warning system. On July 12, 2007, the FCC adopted an order allowing mandatory use of EAS by state governments and requiring that all EAS participants, including television broadcasters, be able to receive messages formatted pursuant to a procedure to be adopted by the Federal Emergency Management Agency. In a further notice, the FCC invited comments on, among other things, how the EAS rules could be modified to ensure that non-English speakers and persons with disabilities are reached by EAS messages and whether local, county, tribal, or other state governmental entities should be allowed to initiate mandatory state and local alerts. On November 23, 2010, the FCC issued an Order requiring all broadcasters to acquire and install the equipment necessary to use the Common Alerting Protocol (CAP) standard for EAS alerts by September 30, 2011. On February 3, 2011, the FCC released an Order which requires national testing of the EAS and requires broadcast stations to submit data from such tests to the FCC. On September 16, 2011, the FCC released an Order extending the CAP-compliance deadline until June 30, 2012. The new EAS requirements and any additional FCC EAS requirements on broadcasters could increase our costs.

***Restrictions on Broadcast Programming***

## Edgar Filing: SINCLAIR BROADCAST GROUP INC - Form 10-K

Advertising of cigarettes and certain other tobacco products on broadcast stations has been banned for many years. Various states also restrict the advertising of alcoholic beverages and, from time to time, certain members of Congress have contemplated legislation to place restrictions on the advertisement of such alcoholic beverages. FCC rules also restrict the amount and type of advertising which can appear in a program broadcast primarily for an audience of children 12 years old and younger. In addition, the Federal Trade Commission issued guidelines in December 2003 and continues to provide advice to help media outlets voluntarily screen out weight loss product advertisements that are misleading.

The Communications Act and FCC rules also place restrictions on the broadcasting of advertisements by legally qualified candidates for elective office. Those restrictions state that:

- stations must provide reasonable access for the purchase of time by legally qualified candidates for federal office;
- stations must provide equal opportunities for the purchase of equivalent amounts of comparable broadcast time by opposing candidates for the same elective office; and
- during the 45 days preceding a primary or primary run-off election and during the 60 days preceding a general or special election, legally qualified candidates for elective office may be charged no more than the station's lowest unit charge for the same class and amount of time for the same period.

Table of Contents

It is a violation of federal law and FCC regulations to broadcast obscene, indecent, or profane programming. FCC licensees are, in general, responsible for the content of their broadcast programming, including that supplied by television networks. Accordingly, there is a risk of being fined as a result of our broadcast programming, including network programming. As a result of legislation passed in June 2006, the maximum forfeiture amount for the broadcast of indecent or obscene material was increased to \$325,000 from \$32,500 for each violation with a cap of \$3.0 million for any single act.

***Programming and Operation***

*General.* The Communications Act requires broadcasters to serve the public interest. The FCC has relaxed or eliminated many of the more formalized procedures it had developed in the past to promote the broadcast of certain types of programming responsive to the needs of a station's community of license. FCC licensees continue to be required, however, to present programming that is responsive to the needs and interests of their communities and to maintain certain records demonstrating such responsiveness. Complaints from viewers concerning a station's programming may be considered by the FCC when it evaluates renewal applications of a licensee, although such complaints may be filed at any time and generally may be considered by the FCC at any time. Stations also must pay regulatory and application fees and follow various rules promulgated under the Communications Act that regulate, among other things, political advertising, sponsorship identifications, obscene and indecent broadcasts and technical operations, including limits on radio frequency radiation.

*Equal Employment Opportunity.* On November 20, 2002, the FCC adopted rules, effective March 10, 2003, requiring licensees to create equal employment opportunity outreach programs and maintain records and make filings with the FCC evidencing such efforts. The FCC simultaneously released a notice of proposed rulemaking seeking comments on whether and how to apply these rules and policies to part-time positions, defined as less than 30 hours per week. That rulemaking is still pending.

*Children's Television Programming.* Television stations are required to broadcast a minimum of three hours per week of core children's educational programming, which the FCC defines as programming that:

- has the significant purpose of serving the educational and informational needs of children 16 years of age and under;
- is regularly scheduled weekly and at least 30 minutes in duration; and
- is aired between the hours of 7:00 a.m. and 10:00 p.m. local time.

In addition, the FCC concluded that starting on January 2, 2007, a digital broadcaster must air an additional half hour of core children's programming per every increment of 1 to 28 hours of free video programming provided in addition to the main DTV program stream. Furthermore, core children's educational programs, in order to qualify as such, are required to be identified as educational and informational programs over-the-air at the time they are broadcast and are required to be identified in the children's programming reports, which are required to be placed quarterly in stations' public inspection files and filed quarterly with the FCC.



## Edgar Filing: SINCLAIR BROADCAST GROUP INC - Form 10-K

On April 17, 2007, the FCC requested comments on the status of children's television programming and compliance with the Children's Television Act and the FCC's rules. That proceeding is still pending.

*Violent Programming.* In 2004, the FCC initiated a notice of inquiry seeking comments on issues relating to the presentation of violent programming on television and its impact on children. On April 25, 2007, the FCC released a report concluding that there is strong evidence that exposure to violence in the media can increase aggressive behavior in children, at least in the short term. Accordingly, the FCC concluded that it would be in the public interest to regulate such programming and Congress could do so consistent with the First Amendment. As possible solutions, the FCC suggested, among other things, a voluntary industry initiative to reduce the amount of excessively violent programming viewed by children and also proposed several viewer-initiated blocking proposals, such as the provision of video channels by MVPDs on family tiers or on an a la carte basis.

*Television Program Content.* The television industry has developed an FCC approved ratings system that is designed to provide parents with information regarding the content of the programming being aired. Furthermore, the FCC requires certain television sets to include the so-called V-chip, a computer chip that allows the blocking of rated programming. It is a violation of federal law and FCC regulations to broadcast obscene or indecent programming. FCC licensees are, in general, responsible for the content of their broadcast programming, including that supplied by television networks. Accordingly, there is a risk of being fined as a result of our broadcast programming, including network programming.

*Localism.* On October 27, 2011, the FCC issued an Order vacating its 2008 decision proposing to update the way television broadcasters inform the public about how they are serving their local communities. Specifically, the FCC has adopted rules to largely replace the requirement that television stations maintain a paper public file at their main studios with a requirement to submit documents for inclusion in an online public file to be hosted by the FCC. The new rules took effect on August 2, 2012. On and after August 2, 2012, broadcasters will post to the online public file any new documents that they determine must be placed in

Table of Contents

the public file. Broadcasters will have six months after August 2, 2012 to post existing documents that were part of the public file prior to August 2, except in the case of the political file. With respect to the political file only, broadcasters are not required to upload any such documents that were part of their public file prior to August 2. Instead, only newly created political file documents must be uploaded. In addition, smaller broadcasters not affiliated with the top four networks in the top 50 markets are not required to post their political file documents to their online public file until July 1, 2014. In a related proceeding, on November 14, 2011, the FCC released a Notice of Inquiry regarding the use of a standardized disclosure form for television stations to provide the public with the information on how stations are serving the public interest in an effort to help stations meet their obligation to provide programming that addresses a local community's needs and interests.

*Closed Captioning.* In November 2008, the FCC issued a declaratory ruling clarifying certain closed captioning obligations for stations transmitting digital programming, including the obligation to transmit captions in analog standard after the DTV transition and simplifying the close captioning complaint process for consumers. The 21st Century Communications and Video Accessibility Act (CVAA) requires that all nonexempt full-length video programming delivered over the Internet that first appeared on TV in the United States with captions also be captioned online. The first compliance deadline for the FCC's new rules for the closed captioning of video programming delivered via Internet protocol (i.e., IP video), as required by the CVAA, was September 30, 2012. The effective date of the new rules was April 30, 2012, and all video programming that appeared on television with captions after that date is considered covered IP video and will need to be captioned when being shown online in the future. Video programming is defined as programming by, or generally considered comparable to programming provided by a television broadcast station. Beginning September 30, 2012, all pre-recorded programming not edited for Internet distribution must be captioned for online viewing. Pre-recorded programming is defined as programming other than live or near-live programming. Beginning March 30, 2013, all live and near-live programming must be captioned for online viewing. Live programming is defined as programming that airs on TV substantially simultaneously with its performance (i.e., news and sporting events). Near-live programming is video programming that is performed and recorded less than 24 hours prior to the first time it aired on television (i.e., the Late Show with David Letterman). Beginning September 30, 2013, all pre-recorded programming that is edited for Internet distribution must be captioned for online viewing. Programming edited for Internet distribution means video programming for which the TV version is substantially edited prior to its Internet distribution.

***Pending Matters***

Congress and the FCC have under consideration and in the future may consider and adopt, new laws, regulations and policies regarding a wide variety of matters that could affect, directly or indirectly, the operation, ownership and profitability of our broadcast stations, result in the loss of audience share and advertising revenues for our broadcast stations and affect our ability to acquire additional broadcast stations or finance such acquisitions.

Other matters that could affect our broadcast properties include technological innovations and developments generally affecting competition in the mass communications industry, such as direct television broadcast satellite service, Class A television service, the continued establishment of wireless cable systems and low power television stations, digital television technologies, the internet and mobility and portability of our broadcast signal to hand-held devices.

For example, in November 2008, the FCC adopted an order allowing new low power devices to operate in the broadcast television spectrum at locations where channels in that spectrum are not in use. The operation of such devices could cause harmful interference to our broadcast signals adversely affecting the operation and profitability of our stations.

## Edgar Filing: SINCLAIR BROADCAST GROUP INC - Form 10-K

On December 22, 2011, the FCC released a Notice of Proposed Rulemaking in its Quadrennial Review of the Multiple Ownership Rules and is considering changes to the FCC's rules regarding broadcast-newspaper cross ownership restrictions, the possible elimination of rules restricting the ownership of radio and TV in the same market, the potential attribution of TV JSAs and SSAs meaning potentially making JSAs and SSAs count as an ownership interests in a multiple ownership analysis and other possible revisions to the local radio and TV ownership limitations or exceptions that would allow for waivers of the limits in defined circumstances. The proceeding remains pending.

Congress recently passed legislation providing the FCC with authority to conduct so-called "incentive auctions" to begin the process of auctioning and repurposing broadcast television spectrum for mobile broadband use. Incentive auction authority allows the FCC to share the proceeds of spectrum auctions with incumbent television station licensees who give up their licenses (or in some cases, move to a different channel) to facilitate spectrum auctions. The legislation contemplates that the FCC will encourage broadcasters to tender their licenses for auction. The FCC would then "repack" non-tendering broadcasters into the lower portions of the UHF band and auction new "flexible use" wireless licenses in the upper portion of the UHF band. The proposals for television stations to participate in the "incentive auctions" are voluntary and at this time we have not decided whether the company will participate on behalf of any of its stations. On September 28, 2012, the FCC voted in favor of a Notice of Proposed Rulemaking that launches the incentive auction process to clear a portion of the television band that will make way for mobile

Table of Contents

broadband use. Public comments on the FCC's proposals are due on January 25, 2013, with reply comments due on March 12, 2013. At this time we cannot predict the final outcome of this proceeding.

*Other Considerations*

The preceding summary is not a complete discussion of all provisions of the Communications Act, the 1996 Act or other congressional acts or of the regulations and policies of the FCC, or in some cases, the DOJ. For further information, reference should be made to the Communications Act, the 1996 Act, other congressional acts and regulations and public notices circulated from time to time by the FCC, or in some cases, the DOJ. There are additional regulations and policies of the FCC and other federal agencies that govern political broadcasts, advertising, equal employment opportunity and other matters affecting our business and operations.

**ENVIRONMENTAL REGULATION**

Prior to our ownership or operation of our facilities, substances or waste that are, or might be considered, hazardous under applicable environmental laws may have been generated, used, stored or disposed of at certain of those facilities. In addition, environmental conditions relating to the soil and groundwater at or under our facilities may be affected by the proximity of nearby properties that have generated, used, stored or disposed of hazardous substances. As a result, it is possible that we could become subject to environmental liabilities in the future in connection with these facilities under applicable environmental laws and regulations. Although we believe that we are in substantial compliance with such environmental requirements and have not in the past been required to incur significant costs in connection therewith, there can be no assurance that our costs to comply with such requirements will not increase in the future or that we will not become subject to new governmental regulations, including those pertaining to potential climate change legislation, that may impose additional restrictions or costs on us. We presently believe that none of our properties have any condition that is likely to have a material adverse effect on our consolidated balance sheets, consolidated statements of operations or consolidated statements of cash flows.

**COMPETITION**

Our television stations compete for audience share and advertising revenue with other television stations in their respective DMAs, as well as with other advertising media such as MVPDs, radio, newspapers, magazines, outdoor advertising, transit advertising, telecommunications providers, internet and broadband, yellow page directories and direct mail. Some competitors are part of larger organizations with substantially greater financial, technical and other resources than we have. Other factors that are material to a television station's competitive position include signal coverage, local program acceptance, network affiliation or program service, audience characteristics and assigned broadcast frequency.

Competition in the television broadcasting industry occurs primarily in individual DMAs. Generally, a television broadcasting station in one DMA does not compete with stations in other DMAs. Our television stations are located in highly competitive DMAs. MVPDs can increase competition for a broadcast television station by bringing into its market additional cable network channels. These narrow cable network channels are typically low rated, and, as a result, advertisements are inexpensive to the local advertisers. In addition, certain of our DMAs are overlapped by over-the-air stations from adjacent DMAs and MVPDs of stations from other DMAs, which tends to spread viewership and advertising expenditures over a larger number of television stations.

Television stations compete for audience share primarily on the basis of program popularity, which has a direct effect on advertising rates. Our network affiliated stations are largely dependent upon the performance of network provided programs in order to attract viewers. Non-network time periods are programmed by the station primarily with syndicated programs purchased for cash, cash and barter or barter-only, as well as through self-produced news, public affairs programs, live local sporting events, paid-programming and other entertainment programming.

Television advertising rates are based upon factors which include the size of the DMA in which the station operates, a program's popularity among the viewers that an advertiser wishes to attract, the number of advertisers competing for the available time, the demographic makeup of the DMA served by the station, the availability of alternative advertising media in the DMA, the aggressiveness and knowledge of the sales forces in the DMA and development of projects, features and programs that tie advertiser messages to programming. We believe that our sales and programming strategies allow us to compete effectively for advertising revenues within our DMAs.

The broadcasting industry is continuously faced with technical changes and innovations, competing entertainment and communications media, changes in labor conditions and governmental restrictions or actions of federal regulatory bodies, including the FCC, any of which could possibly have a material effect on a television station's operations and profits. For instance, the FCC has established Class A television service for qualifying low power television stations. This Class A designation provides low power

Table of Contents

television stations, which ordinarily have no broadcast frequency rights when the low power signal conflicts with a signal from any full power stations, some additional frequency rights. These rights may allow low power stations to compete more effectively with full power stations. We cannot predict the effect of increased competition from Class A television stations in markets where we have full power television stations.

Moreover, technology advances and regulatory changes affecting programming delivery through fiber optic lines, video compression, and new wireless uses could lower entry barriers for new video channels and encourage the further development of increasingly specialized niche programming. Telephone companies are permitted to provide video distribution services, on a common carrier basis, as cable systems or as open video systems, each pursuant to different regulatory schemes. Additionally, in January 2004, the FCC concluded an auction for licenses operating in the 12 GHz band that can be used to provide multi-channel video programming distribution. Those licenses were granted in July 2004. In addition, on March 18, 2008, the FCC concluded an auction for the rights to operate the 700 MHz frequency band that had been used by analog television broadcasters and became available when full power television stations ceased using the spectrum as a result of the digital television transition on June 12, 2009. The winning bidders were announced on March 20, 2008. The FCC has indicated that the spectrum may be used for flexible fixed, mobile, and broadcast uses, including fixed and mobile wireless commercial services; fixed and mobile wireless uses for private, internal radio needs; mobile and other new digital broadcast operations; and, may include two-way interactive, cellular, and mobile television broadcasting services. We are unable to predict what other video technologies might be considered in the future or the effect that technological and regulatory changes will have on the broadcast television industry and on the future profitability and value of a particular broadcast television station.

DTV technology has the potential to permit us to provide viewers multiple channels of digital television over each of our existing standard digital channels, to provide certain programming in HD television format and to deliver other channels of information in the forms of data and programming to the internet, PCs, smart phones, tablet computers and mobile devices. These additional capabilities may provide us with additional sources of revenue, as well as additional competition.

We also compete for programming, which involves negotiating with national program distributors or syndicators that sell first-run and rerun packages of programming. Our stations compete for access to those programs against in-market broadcast station competitors for syndicated products and with national cable networks. Public broadcasting stations generally compete with commercial broadcasters for viewers, but not for advertising dollars.

We believe we compete favorably against other television stations because of our management skill and experience, our ability historically to generate revenue share greater than our audience share, our network affiliations and program service arrangements and our local program acceptance. In addition, we believe that we benefit from the operation of multiple broadcast properties, affording us certain non-quantifiable economies of scale and competitive advantages in the purchase of programming.

**EMPLOYEES**

As of March 1, 2013, we had approximately 4,000 employees. Approximately 260 employees are represented by labor unions under certain collective bargaining agreements. We have not experienced any significant labor problems and consider our overall labor relations to be good.

**AVAILABLE INFORMATION**

We regularly use our website as a source of company information and it can be accessed at [www.sbg.net](http://www.sbg.net). We make available, free of charge through our website, our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after such documents are electronically submitted to the SEC. In addition, a replay of each of our quarterly earnings conference calls is available on our website until the subsequent quarter's earnings call. The information contained on, or otherwise accessible through, our website is not a part of this Annual Report on Form 10-K and is not incorporated herein by reference.

Table of Contents

**ITEM 1A. RISK FACTORS**

You should carefully consider the risks described below before investing in our securities. Our business is also subject to the risks that affect many other companies such as general economic conditions, geopolitical events, competition, technological obsolescence and employee relations. The risks described below, along with risks not currently known to us or that we currently believe are immaterial, may impair our business operations and our liquidity in an adverse way.

**Our advertising revenue can vary substantially from period to period based on many factors beyond our control. This volatility affects our operating results and may reduce our ability to repay indebtedness or reduce the market value of our securities.**

We rely on sales of advertising time for most of our revenues and, as a result, our operating results depend on the amount of advertising revenue we generate. If we generate less advertising revenue, it may be more difficult for us to repay our indebtedness and the value of our business may decline. Our ability to sell advertising time depends on:

- the levels of automobile advertising, which historically have represented about one quarter of our advertising revenue; however, for the year ended December 31, 2012, automobile advertising represented 20.8% of our net time sales;
- the health of the economy in the area where our television stations are located and in the nation as a whole;
- the popularity of our programming and that of our competition;
- the levels of political advertising, which are affected by campaign finance laws and the ability of political candidates and political action committees to raise and spend funds and are subject to seasonal fluctuations;
- the reliability of our ratings information measurements, including new ratings system technologies such as people meters and set-top boxes ;
- changes in the makeup of the population in the areas where our stations are located;
- the activities of our competitors, including increased competition from other forms of advertising-based mediums, such as other broadcast television stations, radio stations, MVPDs, internet and broadband content providers and other print and media outlets serving in the same markets; and
- other factors that may be beyond our control.

After a severe economic recession in 2008 and 2009 that affected our advertising revenue, we experienced a rebound in advertising spending in 2010 due primarily to a resurgence of the automotive industry, our largest advertising category, and a contentious mid-term election resulting in record political revenues. In 2012, we recorded record levels of political advertising and benefited from strong results in our automotive advertising category. There can be no assurance that our advertising revenue will not be volatile in the future or that such volatility will not have an adverse impact on our business, financial condition or results of operations.



**Our substantial indebtedness could adversely affect our financial condition and prevent us from fulfilling our debt obligations.**

We have a high level of debt, totaling \$2,273.4 million at December 31, 2012, compared to the book value of shareholders' deficit of \$100.1 million on the same date. Our relatively high level of debt poses the following risks, particularly in periods of declining revenues:

- we may be unable to service our debt obligations, including payments on notes as they come due, especially during general negative economic and market industry conditions;
- we may use a significant portion of our cash flow to pay principal and interest on our outstanding debt, especially during general negative economic and market industry conditions;
- the amount available for working capital, capital expenditures, dividends and other general corporate purposes may be limited because a significant portion of cash flow is used to pay principal and interest on outstanding debt;
- our lenders may not be as willing to lend additional amounts to us for future working capital needs, additional acquisitions or other purposes;
- the cost to borrow from lenders may increase;
- our ability to access the capital markets may be limited, and we may be unable to issue securities with pricing or other terms that we find attractive, if at all;
- if our cash flow were inadequate to make interest and principal payments, we might have to restructure or refinance our indebtedness or sell one or more of our stations to reduce debt service obligations;
- we may be more vulnerable to adverse economic conditions than less leveraged competitors and thus, less able to withstand competitive pressures; and

Table of Contents

- because the interest rate under the Bank Credit Agreement is a floating rate, any increase will reduce the funds available to repay our obligations and for operations and future business opportunities and will make us more vulnerable to the consequences of our leveraged capital structure. As of December 31, 2012, approximately \$899.5 million principal amount of our recourse debt relates to the Bank Credit Agreement.

Any of these events could reduce our ability to generate cash available for investment, debt repayment or capital improvements or to respond to events that would enhance profitability.

**Commitments we have made to our lenders limit our ability to take actions that could increase the value of our securities and business or may require us to take actions that decrease the value of our securities and business.**

Our existing financing agreements prevent us from taking certain actions and require us to meet certain tests. These restrictions and tests may require us to conduct our business in ways that make it more difficult to repay unsecured debt or decrease the value of our securities and business. These restrictions and tests include the following:

- restrictions on additional debt;
- restrictions on our ability to pledge our assets as security for indebtedness;
- restrictions on payment of dividends, the repurchase of stock and other payments relating to our capital stock;
- restrictions on some sales of certain assets and the use of proceeds from asset sales;
- restrictions on mergers and other acquisitions, satisfaction of conditions for acquisitions and a limit on the total amount of acquisitions without the consent of bank lenders;
- restrictions on permitted investments;
- restrictions on the lines of business we and our subsidiaries may operate; and
- financial ratio and condition tests including the ratio of adjusted earnings before interest, tax, depreciation and amortization, as adjusted (adjusted EBITDA) to adjusted interest expense, the ratio of first lien indebtedness to adjusted EBITDA and the ratio of Sinclair Television Group, Inc. (STG) total indebtedness to adjusted EBITDA.

Future financing arrangements may contain additional restrictions and tests. All of these restrictive covenants may limit our ability to pursue our business strategies, prevent us from taking action that could increase the value of our securities or may require actions that decrease the value of our securities. In addition, we may fail to meet the tests and thereby default on one or more of our obligations (particularly if the economy weakens and thereby reduces our advertising revenues). If we default on our obligations, creditors could require immediate payment of the obligations or foreclose on collateral. If this happens, we could be forced to sell assets or take other actions that could significantly reduce the value of our securities and business and we may not have sufficient assets or funds to pay our debt obligations.

**A failure to comply with covenants under our debt instruments could result in a default under such debt instruments, acceleration of amounts due under our debt and loss of assets securing our loans.**

Certain of our debt is cross-defaulted with our other debt, which means that a default under certain of our debt may cause a default under certain of our indentures or the Bank Credit Agreement.

If we breach certain of our debt covenants, our lenders could require us to repay the debt immediately, and, if the debt is secured, could immediately take possession of the property securing such debt. In addition, if any other lender declared its loan due and payable as a result of a default, the holders of our outstanding notes, along with the lenders under the Bank Credit Agreement, might be able to require us to pay those debts immediately.

As a result, any default under our debt covenants could have a material adverse effect on our financial condition and our ability to meet our obligations.

**Any insolvency or bankruptcy proceeding relating to Cunningham, one of our LMA partners, would cause a default and potential acceleration under the Bank Credit Agreement and could, potentially, result in Cunningham's rejection of our seven LMAs with Cunningham, which would negatively affect our financial condition and results of operations.**

Cunningham operates in the same industry as us and hence faces similar financial and economic pressures. Cunningham is our LMA partner in seven markets. Because the seven LMAs with Cunningham are material to our financial condition and results of operations, we are affected by the financial condition of Cunningham or any of its subsidiaries. Any insolvency or bankruptcy proceeding relating to Cunningham or any of its subsidiaries would materially negatively affect our financial condition and results of operations.

Table of Contents

**Despite current debt levels, we may be able to incur significantly more debt in the future, which could increase the foregoing risks related to our indebtedness.**

At December 31, 2012, we had \$49.5 million available (subject to certain borrowing conditions) for additional borrowings under the revolving credit facility (the Revolving Credit Facility) of the Bank Credit Agreement, all of which was available under our current borrowing capacity. Under the terms of the debt instruments to which we are subject, and provided we meet certain financial and other covenants, we may be able to incur substantial additional indebtedness in the future, including additional senior debt and secured debt. If we incur additional indebtedness, the risks described in the risk factors in this report relating to having substantial debt could intensify.

**Our strategic acquisitions could pose various risks and increase our leverage.**

We have pursued and intend to selectively continue to pursue strategic acquisitions, subject to market conditions, our liquidity and the availability of attractive acquisition candidates, with the goal of improving our business. During 2012, we acquired certain assets related to, and began operating 29 television stations plus the license assets of WTTA-TV in Tampa / St. Petersburg, Florida, a television station which we programed pursuant to an LMA prior to December 1, 2012.

We may not be able to identify other attractive acquisition targets or we may not be able to fund additional acquisitions in the future. Acquisitions involve inherent risks, such as increasing leverage and debt service requirements and combining company cultures and facilities, which could have a material adverse effect on our results of operations and could strain our human resources. We may not be able to successfully implement effective costs controls or increase revenues as a result of any acquisition. In addition, future acquisitions may result in our assumption of unexpected liabilities and may result in the diversion of management's attention from the operation of our core business.

Certain acquisitions, such as television stations, are subject to the approval of the FCC and potentially, other regulatory authorities. The need for FCC and other regulatory approvals could restrict our ability to consummate future transactions and potentially require us to divest certain television stations if the FCC believes that a proposed acquisition would result in excessive concentration in a market, even if the proposed combinations may otherwise comply with FCC ownership limitations.

**Our other operating divisions segment involves risks, including the diversion of resources, that may adversely affect our business or results of operations.**

Our other operating divisions segment consists of businesses involved in sign design and fabrication, regional security alarm operations, and real estate ventures and is reported separately from our broadcast segment. Managing the operations of these businesses and the costs incurred by these businesses involve risks, including the diversion of our management's attention from managing the operations of our broadcast businesses and diverting other resources that could be used in our broadcast businesses. Such diversion of resources may adversely affect our business and results of operations. In addition, our investments in real estate ventures carry inherent risks related to owning interests in real property, including, among others, the relative illiquidity of real estate, potential adverse changes in real estate market conditions, and changes in tenant preferences. There can be no assurance that our investments in the businesses comprising our other operating divisions will yield a positive rate of return or otherwise be recoverable.

**Financial and economic conditions may have an adverse impact on our industry, business, results of operations or financial condition.**

Financial and economic conditions have been challenging and the continuation or worsening of such conditions could further reduce consumer confidence and have an adverse effect on the fundamentals of our business, results of operations and/or financial condition. Poor economic and industry conditions could have a negative impact on our industry or the industry of those customers who advertise on our stations, including, among others, the automotive industry and service businesses, each of which is a significant source of our advertising revenue. Additionally, financial institutions, capital providers, or other consumers may be adversely affected. Potential consequences of any financial and economic decline include:

- the financial condition of those companies that advertise on our stations, including, among others, the automobile manufacturers and dealers, may be adversely affected and could result in a significant decline in our advertising revenue;
- our ability to pursue the acquisition of attractive television and non-television assets may be limited if we are unable to obtain any necessary additional capital on favorable terms, if at all;
- our ability to pursue the divestiture of certain television and non-television assets at attractive values may be limited;

Table of Contents

- the possibility that our business partners, such as our counterparties to our outsourcing and news share arrangements, could be negatively impacted and our ability to maintain these business relationships could also be impaired; and
- our ability to refinance our existing debt on terms and at interest rates we find attractive, if at all, may be impaired;
- our ability to make certain capital expenditures may be significantly impaired.

**We must purchase television programming in advance based on expectations about future revenues. Actual revenues may be lower than our expectations. If this happens, we could experience losses that may make our securities less valuable.**

One of our most significant costs is television programming. Our ability to generate revenue to cover this cost may affect the value of our securities. If a particular program is not popular in relation to its costs, we may not be able to sell enough advertising time to cover the costs of the program. Since we generally purchase programming content from others rather than producing such content ourselves, we have limited control over the costs of the programming. Often we must purchase programming several years in advance and may have to commit to purchase more than one year's worth of programming. We may replace programs that are doing poorly before we have recaptured any significant portion of the costs we incurred or before we have fully amortized the costs. Any of these factors could reduce our revenues or otherwise cause our costs to escalate relative to revenues. These factors are exacerbated during a weak advertising market. Additionally, our business is subject to the popularity of the programs provided by the networks with which we have network affiliation agreements or which provide us programming.

**We may lose a large amount of programming if a network terminates its affiliation or program service arrangement with us, which could increase our costs and/or reduce revenue.**

Out of our 84 full power television stations that we own and operate, or to which we provide (or for which we are provided) programming services and/or sales services, 83 are affiliated with networks, as of March 1, 2013. The networks produce and distribute programming in exchange for each station's commitment to air the programming at specified times and for commercial announcement time during programming. The amount and quality of programming provided by each network varies.

The non-renewal or termination of any of our network affiliation agreements would prevent us from being able to carry programming of the relevant network. This loss of programming would require us to obtain replacement programming, which may involve higher costs and which may not be as attractive to our target audiences, resulting in reduced revenues. Upon the termination of any of our network affiliation agreements, we would be required to establish a new network affiliation agreement for the affected station with another network or operate as an independent station. At such time, the remaining value of the network affiliation asset could become impaired and we would be required to record impairment charges to write down the value of the asset to its estimated fair value.

**We may not be able to negotiate our network affiliation agreements or program service arrangements at terms comparable to or more favorable than our current agreements upon their expiration.**

## Edgar Filing: SINCLAIR BROADCAST GROUP INC - Form 10-K

As network affiliation agreements come up for renewal, we (or licensees of the stations we provide programming and/or sales services to), may not be able to negotiate terms comparable to or more favorable than our current agreements. On March 25, 2010, we agreed to terms on a renewal of nine of our ABC network affiliation agreements, expiring on August 31, 2015. On January 24, 2011, we extended 16 of our MyNetworkTV affiliation agreements, expiring fall 2014. In 2011 we extended ten of our CW network affiliation agreements, expiring August 31, 2016. On May 14, 2012, we agreed to terms of renewal of 20 FOX network affiliation agreements, expiring December 31, 2017. Pursuant to the terms, we are required to pay an annual license fee to ABC and a network programming fee to FOX for network programming. Effective January 1, 2013, we extended two of our CBS affiliation agreements, expiring December 31, 2018.

During 2012, we entered into agreements to purchase television stations. With these purchases, we acquired six CW affiliation agreements that will also expire on August 31, 2016, four FOX affiliation agreements two of which expire on December 31, 2017 and two that expire on June 30, 2014, two NBC affiliation agreements that expire January 1, 2016, three ABC affiliation agreements two of which expire on December 31, 2015, and one that expires on December 31, 2017, nine CBS affiliation agreements two of which expire on April 29, 2017, four that expire on January 31, 2016, two that expire June 2, 2016 and one that expires on December 31, 2016. We also acquired three MyNetworkTV affiliation agreements that will expire in the Fall of 2014 and one Azteca affiliation agreement which expired on February 8, 2013. The Azteca station operates under the existing affiliation agreement on a temporary basis while we negotiate a new affiliation agreement.

Table of Contents

We cannot predict the outcome of any future negotiations relating to our affiliation agreements or what impact, if any, they may have on our financial condition and results of operations. In addition, the impact of an increase in reverse network compensation payments, under which we compensate the network for programming pursuant to our affiliation agreements, may have a negative effect on our financial condition or results of operations.

**We may not be able to renegotiate retransmission consent agreements at terms comparable to or more favorable than our current agreements and networks with which we are affiliated are currently, or in the future are expected to, require us to share revenue from retransmission consent agreements with them.**

As retransmission consent agreements expire, we may not be able to renegotiate such agreements at terms comparable to or more favorable than our current agreements. This may cause revenues and/or revenue growth from our retransmission consent agreements to decrease under the renegotiated terms despite the fact that our current retransmission consent agreements include automatic annual fee escalators. In addition, certain of our networks or program service providers with which we are affiliated are currently, or in the future are expected to, require us to share revenue from retransmission consent agreements with them as part of renewing expiring affiliation agreements or pursuant to certain rights contained in existing affiliation agreements. There can be no assurances that the amounts shared will not increase at expiration of the current contracts.

**The effects of the economic environment could require us to record an asset impairment of goodwill and broadcast licenses.**

We are required to analyze goodwill and certain other intangible assets for impairment. The accounting guidance establishes a method of testing goodwill and broadcast licenses for impairment on an annual basis, or on an interim basis if an event occurs that would reduce the fair value of a reporting unit or an indefinite-lived asset below its carrying value.

At least annually, we assess our goodwill and broadcast licenses for impairment. To perform this assessment, we review certain qualitative factors to conclude whether it is more likely than not that goodwill or broadcast licenses are impaired. If we conclude it is more likely than not that goodwill or broadcast licenses are impaired, we estimate the fair value of our reporting units or broadcast licenses using a combination of observed prices paid for similar assets and liabilities, discounted cash flow models and appraisals. We make certain critical estimates about the future revenue growth rates within each of our markets as well as the discount rates and comparable multiples that would be used by market participants in an arms-length transaction. If these growth rates or multiples decline, or if the discount rate increases, our goodwill and/or broadcast licenses carrying amounts could be in excess of the estimated fair values. An impairment of some or all of the value of these assets could result in a material effect on the consolidated statements of operations in the future. As of December 31, 2012, we had approximately \$1,074.0 million and \$85.1 million of goodwill and broadcast licenses, respectively. As of December 31, 2012, goodwill and broadcast licenses in aggregate represented 42.5% of our total assets. For additional information regarding impairments to our goodwill and broadcast licenses, see *Note 5. Goodwill, Broadcast Licenses and Other Intangible Assets* in the Notes to our Consolidated Financial Statements.

**Key officers and directors have financial interests that are different and sometimes opposite from ours and we may engage in transactions with these officers and directors that may benefit them to the detriment of other securityholders.**



## Edgar Filing: SINCLAIR BROADCAST GROUP INC - Form 10-K

Some of our officers, directors and majority shareholders own stock or partnership interests in businesses that engage in television broadcasting, do business with us or otherwise do business that conflicts with our interests. They may transact some business with us upon approval by the independent members of our board of directors even if there is a conflict of interest or they may engage in business competitive to our business and those transactions may benefit the officers, directors or majority shareholders to the detriment of our securityholders. Each of David D. Smith, Frederick G. Smith, and J. Duncan Smith is an officer and director of Sinclair and Robert E. Smith is a director of Sinclair. Together, the Smiths hold shares of our common stock that control the outcome of most matters submitted to a vote of shareholders.

The Smiths own businesses that lease real property and tower space to us and engage in other transactions with us. Trusts established for the benefit of the children of our controlling shareholders and the estate of Carolyn C. Smith, a parent of our controlling shareholders, own Cunningham, our LMA partner in seven markets. In addition, we have been granted the rights to acquire, subject to applicable FCC rules and regulations, Cunningham (although the present rules and regulations of the FCC would not allow us to control the stations of Cunningham (the Cunningham Stations) if we continue to hold television stations in the same market as the Cunningham Stations). The Smiths owned a controlling interest in Bay Television, Inc. (Bay TV), a company that owned WTTA-TV in Tampa / St. Petersburg, Florida, a television station which we programed pursuant to an LMA since 1999. On December 1, 2012 we acquired the assets of WTTA-TV that Bay TV owned and our LMA with Bay TV was terminated. David D. Smith, Frederick G. Smith, J.

Table of Contents

Duncan Smith, Robert E. Smith and David B. Amy, our Executive Vice President and Chief Financial Officer, together own interests (less than 5% in aggregate) in Allegiance Capital Limited Partnership, a limited partnership in which we also hold an interest. Frederick G. Smith owns an interest (less than 1%) in Patriot Capital II, L.P., a limited partnership in which we also hold an interest. David Smith owns an interest (less than 3%) in Towson Row LLC, a real estate venture, which we also hold an interest. We can give no assurance that these transactions or any transactions that we may enter into in the future with our officers, directors or majority shareholders, have been, or will be, negotiated on terms as favorable to us as we would obtain from unrelated parties. Maryland law and our financing agreements limit the extent to which our officers, directors and majority shareholders may transact business with us and pursue business opportunities that we might pursue. These limitations do not, however, prohibit all such transactions.

For additional information regarding our related person transactions, see *Note 11. Related Person Transactions*, in the Notes to our Consolidated Financial Statements.

**We depend on key personnel and we may not be able to operate and grow our business effectively if we lose the services of our senior executive officers or are unable to attract and retain qualified personnel in the future.**

We depend on the efforts of our management and other key employees. The success of our business depends heavily on our ability to develop and retain management and to attract and retain qualified personnel in the future. Competition for senior management personnel is intense and we may not be able to retain our key personnel. If we are unable to do so, our business, financial condition or results of operations may be adversely affected.

**The Smiths exercise control over most matters submitted to a shareholder vote and may have interests that differ from other securityholders. They may, therefore, take actions that are not in the interests of other securityholders.**

David D. Smith, Frederick G. Smith, J. Duncan Smith and Robert E. Smith hold shares representing approximately 81.3% of the common stock voting rights of us as of March 1, 2013 and, therefore, control the outcome of most matters submitted to a vote of shareholders, including, but not limited to, electing directors, adopting amendments to our certificate of incorporation and approving corporate transactions. The Smiths hold substantially all of the Class B Common Stock, which have ten votes per share. Our Class A Common Stock has only one vote per share. In addition, the Smiths hold half our board of directors' seats and, therefore, have the power to exert significant influence over our corporate management and policies. The Smiths have entered into a stockholders' agreement pursuant to which they have agreed to vote for each other as candidates for election to our board of directors until June 13, 2015.

Although in the past the Smiths have recused themselves from related person transactions, circumstances may occur in which the interests of the Smiths, as the controlling securityholders, could be in conflict with the interests of other securityholders and the Smiths would have the ability to cause us to take actions in their interest. In addition, the Smiths could pursue acquisitions, divestitures or other transactions that, in their judgment, could enhance their equity investment, even though such transactions might involve risks to our other securityholders. Further, the concentration of ownership in the Smiths may have the effect of discouraging, delaying or preventing a future change of control, which could deprive our stockholders of an opportunity to receive a premium for their shares as part of a sale of our company and might reduce the price of our shares.

## Edgar Filing: SINCLAIR BROADCAST GROUP INC - Form 10-K

(See Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters and Item 13. Certain Relationships and Related Transactions, which will be included as part of our Proxy Statement for our 2012 Annual Meeting.)

Significant divestitures by the Smiths could cause them to own or control less than 51% of the voting power of our shares, which would in turn give Cunningham the right to terminate the LMAs and other agreements with Cunningham due to a change in control of us. Any such terminations would have an adverse effect on our results of operations. The FCC's multiple ownership rules limit our ability to operate multiple television stations in some markets and may result in a reduction in our revenue or prevent us from reducing costs. Changes in these rules may threaten our existing strategic approach to certain television markets. See *Changes in rules on local marketing agreements* in the risk factor below.

**We may be subject to fines and other penalties related to violations of FCC indecency rules and other FCC rules and policies, the enforcement of which has increased in recent years, and complaints related to such violations may delay our renewal applications with the FCC.**

We provide a significant amount of live news reporting that is provided by the broadcast networks or is controlled by our on-air news talent. Although both broadcast network and our on-air talent have generally been professional and careful in what they say, there is always the possibility that information may be reported that is inaccurate or even in violation of certain indecency rules promulgated by the FCC. In addition, entertainment and sports programming provided by

Table of Contents

broadcast networks may contain content that is in violation of the indecency rules promulgated by the FCC. Because the interpretation by the courts and the FCC of the indecency rules is not always clear, it is sometimes difficult for us to determine in advance what may be indecent programming. We have insurance to cover some of the liabilities that may occur, but the FCC has enhanced its enforcement efforts relating to the regulation of indecency. In addition, in 2006, Congress dramatically increased the penalties for broadcasting indecent programming and potentially subjects broadcasters to license revocation, renewal or qualification proceedings in the event that they broadcast indecent material. We are currently subject to pending FCC inquiries and proceedings relating to alleged violations of indecency, sponsorship identification, children's programming and captioning rules. There can be no assurance that an incident that may lead to significant fines or other penalties by the FCC can be avoided.

In addition, action on many license renewal applications, including those we have filed, has been delayed because of, among other reasons, the pendency of complaints that programming aired by the various networks contained indecent material and complaints regarding alleged violations of sponsorship identification, children's programming and captioning rules. As of March 1, 2013, 16 of our renewal applications were subject to such complaints. We cannot predict when the FCC will address these complaints and act on the renewal applications. We continue to have operating authority until final action is taken on our renewal applications.

**Federal regulation of the broadcasting industry limits our operating flexibility, which may affect our ability to generate revenue or reduce our costs.**

The FCC regulates our business, just as it does all other companies in the broadcasting industry. We must ask the FCC's approval whenever we need a new license, seek to renew, assign or modify a license, purchase a new station, sell an existing station or transfer the control of one of our subsidiaries that holds a license. Our FCC licenses and those of the licensees for which we provide services to pursuant to LMAs, JSAs and SSAs are critical to our operations; we cannot operate without them. We cannot be certain that the FCC will renew these licenses in the future or approve new acquisitions in a timely manner, if at all. If licenses are not renewed or acquisitions are not approved, we may lose revenue that we otherwise could have earned.

In addition, Congress and the FCC may, in the future, adopt new laws, regulations and policies regarding a wide variety of matters (including, but not limited to, technological changes in spectrum assigned to particular services) that could, directly or indirectly, materially and adversely affect the operation and ownership of our broadcast properties. (See *Item 1. Business.*)

**The FCC's multiple ownership rules limit our ability to operate multiple television stations in some markets and may result in a reduction in our revenue or prevent us from reducing costs. Changes in these rules may threaten our existing strategic approach to certain television markets.**

Changes in rules on television ownership

Congress passed a bill requiring the FCC to establish a national audience reach cap of 39% that was signed into law on January 23, 2004. This law permits broadcast television owners to own more television stations nationally, potentially affecting our competitive position.

## Edgar Filing: SINCLAIR BROADCAST GROUP INC - Form 10-K

In June 2003, the FCC adopted new multiple ownership rules. In September 2003, the Court of Appeals for the Third Circuit stayed the effectiveness of the rules. In June 2004, the court issued a decision which upheld a portion of such rules and remanded the matter, including the local television ownership rule, to the FCC for further justification of the rules. The court left the stay of the 2003 rules in place pending the remand. Several parties, including us, filed petitions with the Supreme Court of the United States seeking review of the Third Circuit decision, but the Supreme Court denied the petitions in June 2005. In July 2006, as part of the FCC's statutorily required quadrennial review of its media ownership rules, the FCC released Further Notice of Proposed Rule Making seeking comment on how to address the issues raised by the Third Circuit's decision, including the local television ownership rules. In February 2008, the FCC released an order containing its current ownership rules, which re-adopted its 1999 local television ownership rule. On February 29, 2008, several parties, including us, separately filed petitions for review in a number of federal appellate courts challenging the FCC's current ownership rules. By lottery, those petitions were consolidated in the U.S. Court of Appeals for the Ninth Circuit. In July 2008, several parties, including us, filed motions to transfer the consolidated proceedings in the U.S. Court of Appeals for the D.C. Circuit and other parties requested transfer to the U.S. Court of Appeals for the Third Circuit. In November 2008, the Ninth Circuit transferred the consolidated proceedings to the Third Circuit. On July 7, 2011, the Third Circuit upheld the FCC's local television ownership rules. On December 5, 2011, we joined with a number of other parties on a Petition for a Writ of Certiorari filed with the Supreme Court requesting that the Court overrule the decision of the Third Circuit and that request was denied by the Supreme Court. Because the majority of the FCC's rules were ultimately upheld,

Table of Contents

the rules do not allow us to control the Cunningham Stations if we continue to hold television stations in the same markets as the Cunningham Stations and could force us to terminate or modify the LMAs with the Cunningham Stations. In addition, if Cunningham were to exercise its put rights under the acquisition and merger agreements and the LMAs, each as amended and/or restated, we may have to find a suitable third party to assume our purchase obligations because we are not permitted to purchase such stations under current FCC rules. We cannot assure you that we would be able to locate such a third party or that any such third party would continue the LMAs (or any alternative arrangements) with us on substantially similar terms that are as favorable to us or at all.

On December 22, 2011, the FCC released a Notice of Proposed Rulemaking in its Quadrennial Review of the Multiple Ownership Rules and is considering changes to the FCC's rules regarding broadcast-newspaper cross ownership restrictions, the possible elimination of rules restricting the ownership of radio and TV in the same market, the potential attribution of TV JSAs and SSAs meaning potentially making JSAs and SSAs count as an ownership interest in a multiple ownership analysis and other possible revisions to the local radio and TV ownership limitations or exceptions that would allow for waivers of the limits in defined circumstances. The proceeding remains pending.

Changes in rules on local marketing agreements

Certain of our stations have entered into what have commonly been referred to as local marketing agreements or LMAs. One typical type of LMA is a programming agreement between two separately owned television stations serving the same market, whereby the licensee of one station programs substantial portions of the broadcast day and sells advertising time during such programming segments on the other licensee's station subject to the ultimate editorial and other controls being exercised by the latter licensee. We believe these arrangements allow us to reduce our operating expenses and enhance profitability.

In 1999, the FCC established a new local television ownership rule and decided to attribute LMAs for ownership purposes. It grandfathered our LMAs that were entered into prior to November 5, 1996, permitting the applicable stations to continue operations pursuant to the LMAs until the conclusion of the FCC's 2004 biennial review. The FCC stated it would conduct a case-by-case review of grandfathered LMAs and assess the appropriateness of extending the grandfathering periods. Subsequently, the FCC invited comments as to whether, instead of beginning the review of the grandfathered LMAs in 2004, it should do so in 2006. The FCC did not initiate any review of grandfathered LMAs in 2004 or as part of its 2006 quadrennial review. We do not know when, or if, the FCC will conduct any such review of grandfathered LMAs. With respect to LMAs executed on or after November 5, 1996, the FCC required that parties come into compliance with the 1999 local television ownership rule by August 6, 2001. We challenged the 1999 local television ownership rule in the U.S. Court of Appeals for the D.C. Circuit, and that court stayed the enforcement of the divestiture of the post-November 5, 1996 LMAs. In 2002, the D.C. Circuit ruled that the 1999 local television ownership rule was arbitrary and capricious and remanded the rule to the FCC. Currently, three of our LMAs are grandfathered under the local television ownership rule because they were entered into prior to November 5, 1996 and the remainder are subject to the stay imposed by the D.C. Circuit. If the FCC were to eliminate the grandfathering of these three LMAs, or the D.C. Circuit were to lift its stay, we would have to terminate or modify these LMAs.

In 2003, the FCC revised its ownership rules, including the local television ownership rule. The effective date of the 2003 ownership rules was stayed by the U. S. Court of Appeals for the Third Circuit and the rules were remanded to the FCC. Because the effective date of the 2003 ownership rules had been stayed and, in connection with the adoption of those rules, the FCC concluded the 1999 rules could not be justified as necessary in the public interest, we took the position that an issue exists regarding whether the FCC has any current legal right to enforce any rules prohibiting the acquisition of television stations. Several parties, including us, filed petitions with the Supreme Court of the United States seeking review of the Third Circuit decision, but the Supreme Court denied the petitions in June 2005.

## Edgar Filing: SINCLAIR BROADCAST GROUP INC - Form 10-K

On November 15, 1999, we entered into a plan and agreement of merger to acquire through merger WMYA-TV in Anderson, South Carolina from Cunningham, but that transaction was denied by the FCC. In light of the change in the 2003 ownership rules, we filed a petition for reconsideration with the FCC and amended our application to acquire the license of WMYA-TV. We also filed applications in November 2003 to acquire the license assets of, at the time, the remaining five Cunningham stations: WRGT-TV, Dayton, Ohio; WTAT-TV, Charleston, South Carolina; WVAH-TV, Charleston, West Virginia; WNUV-TV, Baltimore, Maryland; and WTTE-TV, Columbus, Ohio. The Rainbow / PUSH Coalition (Rainbow / PUSH) filed a petition to deny these five applications and to revoke all of our licenses on the grounds that such acquisition would violate the local television ownership rules. The FCC dismissed our applications in light of the stay of the 2003 ownership rules and also denied the Rainbow / PUSH petition. Rainbow / PUSH filed a petition for reconsideration of that denial and we filed an application for review of the dismissal. In 2005, we filed a petition with the U. S. Court of Appeals for the D. C. Circuit requesting that the

Table of Contents

Court direct the FCC to take final action on our applications, but that petition was dismissed. On January 6, 2006, we submitted a motion to the FCC requesting that it take final action on our applications. Both the applications and the associated petition to deny are still pending. We believe the Rainbow / PUSH petition is without merit. On February 8, 2008, we filed a petition with the U.S. Court of Appeals for the D.C. Circuit requesting that the Court direct the FCC to take final action on these applications and cease its use of the 1999 local television ownership rule that it re-adopted as the permanent rule in 2008. In July 2008, the D.C. Circuit transferred the case to the U.S. Court of Appeals for the Ninth Circuit, and we filed a petition with the D.C. Circuit challenging that decision, which was denied. We also filed with the Ninth Circuit a motion to transfer that case back to the D.C. Circuit. In November 2008, the Ninth Circuit consolidated our petition seeking final FCC action on our applications with the petitions challenging the FCC's current ownership rules and transferred the proceedings to the Third Circuit. In December 2008, we agreed voluntarily with the parties to the proceeding to dismiss the petition seeking final FCC action on the applications. In addition, if Cunningham were to exercise its put rights under the acquisition and merger agreements and the LMAs, each as amended and/or restated, we may have to find a suitable third party to assume our purchase obligations because we are not permitted to purchase such stations under current FCC rules. In the event of any such assignments, new applications will have to be filed to reflect the third party as the applicant. In that event, upon the closing of the assignment to such third party, our appeals relating to the 1999 local television ownership rules with respect to our three non-grandfathered LMAs may be moot and the three non-grandfathered LMAs may be terminated.

If we are required to terminate or modify our LMAs, our business could be affected in the following ways:

- **Loss of revenues.** If the FCC requires us to modify or terminate existing LMAs, we would lose some or all of the revenues generated from those LMAs. We would lose revenue because we will have less demographic options, a smaller audience distribution and lower revenue share to offer to advertisers. During the year ended December 31, 2012, we generated \$112.1 million of net revenue from our 11 LMAs, which excludes the revenue of our LMA with Bay TV as we acquired the assets of WTTA-TV, that Bay TV owned, on December 1, 2012 and the LMA was terminated.
- **Increased costs.** If the FCC requires us to modify or terminate existing LMAs, our cost structure would increase. For example, we likely would incur increased programming costs because we will be competing with the separately owned station for syndicated programming. We may also need to add new employees.
- **Losses on investments.** As part of certain of our LMA arrangements, we own the non-license assets used by the stations with which we have LMAs. If certain of these LMA arrangements are no longer permitted, we would be forced to sell these assets, restructure our agreements or find another use for them. If this happens, the market for such assets may not be as good as when we purchased them and, therefore, we cannot be certain of a favorable return on our original investments.
- **Termination penalties.** If the FCC requires us to modify or terminate existing LMAs before the terms of the LMAs expire, or under certain circumstances, we elect not to extend the terms of the LMAs, we may be forced to pay termination penalties under the terms of some of our LMAs. Any such termination penalties could be material.
- **Alternative arrangements.** If the FCC requires us to terminate the existing LMAs, we may enter into one or more alternative arrangements, such as outsourcing agreements, described below, relating to the affected stations. Any such arrangements may be on terms that are less beneficial to us than the existing LMAs.

Use of outsourcing agreements

In addition to our LMAs, we have entered into nine (and may seek opportunities for additional) outsourcing agreements in which our stations provide or are provided various non-programming related services such as sales, operational and managerial services to or by other stations within the same markets. Pursuant to these agreements, seven of our stations currently provide services to one or more stations in each s



respective market and another party provides services to two of our stations. For additional information, refer to *Markets and Stations* under the *Television Broadcasting* section. We believe this structure allows stations to achieve operational efficiencies and economies of scale, which should otherwise improve broadcast cash flow and competitive positions. While television JSAs are not currently attributable under the FCC rules, on August 2, 2004, the FCC released a notice of proposed rulemaking seeking comments on its tentative conclusion that JSAs should be attributable. The FCC is also considering the attribution of JSAs as part of its 2010 Quadrennial Regulatory Review of its broadcast ownership rules, released on December 22, 2011. Both of these proceedings remain pending. We cannot predict the outcome of these proceedings, nor can we predict how any changes, together with possible changes to the ownership rules, would apply to our existing outsourcing agreements. If the FCC were to determine that our outsourcing arrangements were attributable, we would have to terminate or restructure such arrangements on terms that may not be as advantageous to us as the current arrangements.

Table of Contents

Failure of owner / licensee to exercise control

The FCC requires the owner / licensee of a station to maintain independent control over the programming and operations of the station. As a result, the owners / licensees of those stations with which we have LMAs or outsourcing agreements can exert their control in ways that may be counter to our interests, including the right to preempt or terminate programming in certain instances. The preemption and termination rights cause some uncertainty as to whether we will be able to air all of the programming that we have purchased under our LMAs and therefore, uncertainty about the advertising revenue that we will receive from such programming. In addition, if the FCC determines that the owner / licensee is not exercising sufficient control, it may penalize the owner licensee by a fine, revocation of the license for the station or a denial of the renewal of that license. Any one of these scenarios, especially the revocation of or denial of renewal of a license, might result in a reduction of our cash flow and an increase in our operating costs or margins. In addition, penalties might also affect our qualifications to hold FCC licenses, putting our own licenses at risk.

The pendency and indeterminacy of the outcome of these ownership rules, which may limit our ability to provide services to additional or existing stations pursuant to licenses, LMAs, outsourcing agreements or otherwise, expose us to a certain amount of volatility, particularly if the outcomes are adverse to us. Further, resolution of these ownership rules has been and will likely continue to be a cost burden and a distraction to our management and the continued absence of a resolution may have a negative effect on our business.

**The FCC's National Broadband Plan may result in a loss of spectrum for our stations potentially adversely impacting our ability to compete.**

The FCC's National Broadband Plan contemplates the voluntary reallocation of spectrum from broadcasters for other purposes which may include wireless broadband. On November 30, 2010, the FCC initiated a Notice of Proposed Rulemaking that seeks comments on three methods that would permit up to 120 MHz of television spectrum to be reallocated for wireless broadband use: (a) encouraging broadcasters voluntarily to return 120 MHz of spectrum to be auctioned for wireless broadband service, with some currently unknown portion of the proceeds to be paid to broadcasters; (b) adoption of rules to encourage two or more digital television stations to share the same 6 MHz channel, thus lessening the spectrum occupied by each station; and (c) to adopt new engineering rules which would make VHF channels more desirable for digital television operations, thus encouraging stations to move from their current UHF channels into the VHF band, freeing UHF spectrum for wireless broadband use. This initiative raises a number of issues that could impact the broadcast industry. We cannot predict whether any of these proposals will be adopted, or, if adopted, the form of such final rules or whether they would have an adverse impact on our ability to compete. Moreover, we cannot predict whether the FCC might adopt even more stringent requirements, or incentives to abandon current spectrum, if its initiatives are adopted but do have the desired result in freeing what the agency deems sufficient spectrum for wireless broadband use.

Congress recently passed legislation providing the FCC with authority to conduct so-called incentive auctions to begin the process of auctioning and repurposing broadcast television spectrum for mobile broadband use. Incentive auction authority allows the FCC to share the proceeds of spectrum auctions with incumbent television station licensees who give up their licenses (or in some cases, move to a different channel) to facilitate spectrum auctions. The legislation includes specific provisions governing incentive auctions of spectrum that is used by television broadcasters today. The upper UHF bands allocated to television broadcasting will likely be used to provide service to mobile devices and are widely expected to draw bids from wireless operators at auction. The legislation contemplates that the FCC will encourage broadcasters to tender their licenses for auction. Using models it has been developing for the last two years (and will continue to develop) the FCC would then repack non-tendering broadcasters into the lower portion of the UHF band auction new flexible use wireless licenses in the upper portion of the UHF band. As a result of these changes, new companies will likely be able to enter our markets to compete with us. The proposals for television stations to participate in the incentive auctions are voluntary and at this time we have not decided whether the company will participate on behalf of any of its stations. On September 28, 2012, the FCC voted in favor of a Notice of Proposed Rulemaking that launches the incentive auction process to clear a portion of the television band that will make way for mobile broadband use. Public comments on the FCC's proposals were

Edgar Filing: SINCLAIR BROADCAST GROUP INC - Form 10-K

due on January 25, 2013, with reply comments due on March 12, 2013. At this time we cannot predict the final outcome of this proceeding.

Table of Contents

**Competition from other broadcasters or other content providers and changes in technology may cause a reduction in our advertising revenues and/or an increase in our operating costs.**

New technology and the subdivision of markets

Cable providers, direct broadcast satellite companies and telecommunication companies are developing new technology that allows them to transmit more channels on their existing equipment to highly targeted audiences, reducing the cost of creating channels and potentially leading to the division of the television industry into ever more specialized niche markets. Competitors who target programming to such sharply defined markets may gain an advantage over us for television advertising revenues. The decreased cost of creating channels may also encourage new competitors to enter our markets and compete with us for advertising revenue. In addition, technologies that allow viewers to digitally record, store and play back television programming may decrease viewership of commercials as recorded by media measurement services such as Nielsen Media Research and, as a result, lower our advertising revenues. The current ratings provided by Nielsen for use by broadcast stations are limited to live viewing Digital Video Recording playback and give broadcasters no credit whatsoever for viewing that occurs on a delayed basis after the original air date. However, the effects of new ratings system technologies, including people meters and set-top boxes, and the ability of such technologies to be a reliable standard that can be used by advertisers is currently unknown. In 2010, the Media Rating Council, an independent organization that monitors rating services, revoked Nielsen's accreditation in the 154 markets it measures ratings exclusively by its diary methodology. Approximately 39 of our stations are diary only markets as of March 1, 2013.

Since digital television technology allows broadcasting of multiple channels within the additional allocated spectrum, this technology could expose us to additional competition from programming alternatives. In addition, technological advancements and the resulting increase in programming alternatives, such as cable television, direct broadcast Satellite systems, pay-per-view, home video and entertainment systems, video-on-demand, mobile video and the Internet have also created new types of competition to television broadcast stations and will increase competition for household audiences and advertisers. We cannot provide any assurances that we will remain competitive with these developing technologies.

Types of competitors

We also face competition from rivals that may have greater resources than we have. These include:

- other local free over-the-air broadcast television and radio stations;
- telecommunication companies;
- cable and satellite system operators;
- print media providers such as newspapers, direct mail and periodicals;
- internet search engines, internet service providers and websites; and

- other emerging technologies including mobile television.

#### Deregulation

The Telecommunications Act of 1996 and subsequent actions by the FCC and the courts have removed some limits on station ownership, allowing telephone, cable and some other companies to provide video services in competition with us. In addition, the FCC has reallocated and auctioned off a portion of the spectrum for new services including fixed and mobile wireless services and digital broadcast services. As a result of these changes, new companies are able to enter our markets and compete with us.

#### **We could be adversely affected by labor disputes and legislation and other union activity.**

The cost of producing and distributing entertainment programming has increased substantially in recent years due to, among other things, the increasing demands of creative talent and industry-wide collective bargaining agreements. Although we generally purchase programming content from others rather than produce such content ourselves, our program suppliers engage the services of writers, directors, actors and on-air and other talent, trade employees and others, some of whom are subject to these collective bargaining agreements. Also, as of March 1, 2013, approximately 260 of our employees, including certain new employees at the stations we acquired during 2012, are represented by labor unions under collective bargaining agreements. If we or our program suppliers are unable to renew expiring collective bargaining agreements, it is possible that the affected unions could take action in the form of strikes or work stoppages. Failure to renew these agreements, higher costs in connection with these agreements or a significant labor dispute could adversely affect our business by causing, among other things, delays in production that lead to declining viewers, a significant disruption of operations and reductions in the profit margins of our programming and the amounts we can charge advertisers for time. Our stations also broadcast certain professional sporting events, including NBA basketball games, MLB baseball games, NFL football games, and other sporting events, and our viewership may be adversely affected by

Table of Contents

player strikes or lockouts, such as the recent NBA player lockout that threatened to cancel the NBA season, which could adversely affect our advertising revenues and results of operations. Further, any changes in the existing labor laws, including the possible enactment of the Employee Free Choice Act, may further the realization of the foregoing risks.

**Unrelated third parties may bring claims against us based on the nature and content of information posted on websites maintained by us.**

We host internet services that enable individuals to exchange information, generate content, comment on our content, and engage in various online activities. The law relating to the liability of providers of these online services for activities of their users is currently unsettled both within the United States and internationally. Claims may be brought against us for defamation, negligence, copyright or trademark infringement, unlawful activity, tort, including personal injury, fraud, or other theories based on the nature and content of information that may be posted online or generated by our users. Our defense of such actions could be costly and involve significant time and attention of our management and other resources.

**Costs of complying with changes in governmental laws and regulations may adversely affect our results of operations.**

We cannot predict what other governmental laws or regulations will be enacted in the future, how future laws or regulations will be administered or interpreted or how future laws or regulations will affect us. Compliance with new laws or regulations, including proposed legislation to address climate change, or stricter interpretation of existing laws, may require us to incur significant expenditures or impose significant restrictions on us and could cause a material adverse effect on our results of operations.

**Changes in accounting standards can affect reported earnings and results of operations.**

Generally accepted accounting principles and accompanying pronouncements and implementation guidelines for many aspects of our business, including those related to intangible assets, pensions, income taxes, share-based compensation and broadcast rights, are complex and involve significant judgments. Changes in rules or their interpretation could significantly change our reported earnings and results of operations.

**Terrorism or armed conflict domestically or abroad may negatively impact our advertising revenues and results of operations. Future conflicts, terrorist attacks or other acts of violence may have a similar effect.**

The commencement of the war in Iraq in 2002 and activities in Afghanistan resulted in a reduction of advertising revenues as a result of uninterrupted news coverage and/or general economic uncertainty. If the United States becomes engaged in similar conflicts in the future, there may be a similar adverse effect on our results of operations. Also, any terrorist attacks or other acts of violence may have a similar negative effect on our business or results of operations.

**Cybersecurity risks and cyber incidents could adversely affect our business and disrupt operations.**

Cyber incidents can result from deliberate attacks or unintentional events. These incidents can include, but are not limited to, gaining unauthorized access to digital systems for purposes of misappropriating assets or sensitive information, corruption data, or causing operational disruption. The result of these incidents could include, but are not limited to, disrupted operations, misstated financial data, liability for stolen assets or information, increased cybersecurity protection costs, litigation and reputational damage adversely affecting customer or investor confidence.

Table of Contents**ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

**ITEM 2. PROPERTIES**

Generally, each of our stations has facilities consisting of offices, studios and tower sites. Transmitter and tower sites are located to provide maximum signal coverage of our stations' markets. We believe that all of our properties, both owned and leased, are generally in good operating condition, subject to normal wear and tear and are suitable and adequate for our current business operations. The following is a summary of our principal owned and leased real properties. Approximately 111,000 square feet of leased office and warehouse buildings is related to our corporate facilities and is not included in the table below. We believe that no one property represents a material amount of the total properties owned or leased. See *Item 1. Business*, for a listing of our station locations.

<b>Broadcast Segment</b>	<b>Owned</b>	<b>Leased</b>
Office and studio buildings	953,618 square feet	358,957 square feet
Office and studio land	255 acres	5 acres
Transmitter building sites	119,991 square feet	68,908 square feet
Transmitter and tower land	1,244 acres	271 acres
<b>Other Operating Divisions Segment</b>	<b>Owned</b>	<b>Leased</b>
Office and warehouse buildings		74,040 square feet
Recreational land	722 acres	
Real estate rental property	374,589 square feet	
Land held for development and sale	1,721 acres	

**ITEM 3. LEGAL PROCEEDINGS**

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

**ITEM 4. MINE SAFETY DISCLOSURES**

None.





Table of Contents**PART II****ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

Our Class A Common Stock is listed for trading on the NASDAQ stock market under the symbol SBGI. Our Class B Common Stock is not traded on a public trading market or quotation system. The following tables set forth for the periods indicated the high and low closing sales prices on the NASDAQ stock market for our Class A Common Stock.

<b>2012</b>		<b>High</b>		<b>Low</b>
First Quarter	\$	12.95	\$	11.06
Second Quarter	\$	11.33	\$	7.92
Third Quarter	\$	12.56	\$	9.41
Fourth Quarter	\$	12.92	\$	10.39

<b>2011</b>		<b>High</b>		<b>Low</b>
First Quarter	\$	13.00	\$	7.82
Second Quarter	\$	12.70	\$	9.24
Third Quarter	\$	11.16	\$	6.90
Fourth Quarter	\$	11.50	\$	6.95

As of March 1, 2013, there were approximately 101 shareholders of record of our common stock. This number does not include beneficial owners holding shares through nominee names.

***Dividend Policy***

During 2011, our Board of Directors declared quarterly dividends on common stock, of \$0.12 per share. Dividends of \$0.12 per share were paid in March 2011, June 2011, September 2011 and December 2011, for total dividend payments of \$0.48 per share for the year ended December 31, 2011. During 2012, our Board of Directors declared a quarterly dividend of \$0.12 per share in the months of February and May, which were paid in March and June, and \$0.15 per share in the months of August and November, which were paid in September and December. A special cash dividend of \$1.00 per share was also declared in November 2012, which was paid in December, for total dividend payments of \$1.54 per share for the year ended December 31, 2012. In February 2013, our Board of Directors declared a quarterly dividend of \$0.15 per share. Future dividends on our common shares, if any, will be at the discretion of our Board of Directors and will depend on several factors including our results of operations, cash requirements and surplus, financial condition, covenant restrictions and other factors that the Board of Directors may deem relevant. The Class A Common Stock and Class B Common Stock holders have the same rights related to dividends. Under our Bank Credit Agreement, in certain circumstances, we may make up to \$100.0 million in unrestricted annual cash payments including but not limited to dividends, of which \$50.0 million may carry over to the next year. Under the indentures governing our 9.25% Second Lien Notes, due 2017 (the 9.25% Notes), our 8.375% Senior Notes, due 2018 (the 8.375% Notes) and our 6.125% Notes, due 2022 (the 6.125% Notes), we are restricted from paying dividends on our common stock unless certain specified conditions are satisfied, including that:

## Edgar Filing: SINCLAIR BROADCAST GROUP INC - Form 10-K

- no event of default then exists under each indenture or certain other specified agreements relating to our indebtedness; and
- after taking account of the dividends payment, we are within certain restricted payment requirements contained in each indenture.

In addition, under certain of our debt instruments, the payment of dividends is not permissible during a default thereunder.

### *Issuer Purchases of Equity Securities*

During 2012, we did not repurchase any shares of Class A Common Stock or other equity securities of Sinclair.

Table of Contents**ITEM 6. SELECTED FINANCIAL DATA**

The selected consolidated financial data for the years ended December 31, 2012, 2011, 2010, 2009 and 2008 have been derived from our audited consolidated financial statements. The consolidated financial statements for the years ended December 31, 2012, 2011 and 2010 are included elsewhere in this report.

The information below should be read in conjunction with *Management's Discussion and Analysis of Financial Condition and Results of Operations* and the consolidated financial statements included elsewhere in this annual report on Form 10-K.

**STATEMENTS OF OPERATIONS DATA**

(In thousands, except per share data)

	Years Ended December 31,				
	2012	2011	2010	2009	2008
<b>Statements of Operations Data:</b>					
Net broadcast revenues (a)	\$ 920,593	\$ 648,002	\$ 655,836	\$ 555,110	\$ 639,624
Revenues realized from station barter arrangements	86,905	72,773	75,210	58,182	59,877
Other operating divisions revenues	54,181	44,513	36,598	43,698	55,434
Total revenues	1,061,679	765,288	767,644	656,990	754,935
Station production expenses	255,556	178,612	154,133	142,415	158,965
Station selling, general and administrative expenses	171,279	123,938	127,091	122,833	136,142
Expenses recognized from station barter arrangements	79,834	65,742	67,083	48,119	53,327
Depreciation and amortization (b)	85,172	51,103	55,141	65,247	63,105
Amortization of program contract costs and net realizable value adjustments	60,990	52,079	60,862	73,087	84,422
Other operating divisions expenses	46,179	39,486	30,916	45,520	59,987
Corporate general and administrative expenses	33,391	28,310	26,800	25,632	26,285
Gain on asset exchange				(4,945)	(3,187)
Impairment of goodwill, intangible and other assets		398	4,803	249,799	463,887
Operating income (loss)	329,278	225,620	240,815	(110,717)	(287,998)
Interest expense and amortization of debt discount and deferred financing cost	(128,553)	(106,128)	(116,046)	(80,021)	(87,634)
(Loss) gain from extinguishment of debt	(335)	(4,847)	(6,266)	18,465	5,451
Income (loss) from equity and cost method investees	9,670	3,269	(4,861)	354	(2,703)
Gain on insurance settlement	47	1,742	344	11	
Other income, net	2,233	1,717	1,865	1,448	3,000
	212,340	121,373	115,851	(170,460)	(369,884)

Edgar Filing: SINCLAIR BROADCAST GROUP INC - Form 10-K

Income (loss) from continuing operations before income taxes							
Income tax (provision) benefit	(67,852)	(44,785)	(40,226)	32,512	121,362		
Income (loss) from continuing operations	144,488	76,588	75,625	(137,948)	(248,522)		
Discontinued operations:							
Income (loss) from discontinued operations, net of related income taxes	465	(411)	(577)	(81)	(141)		
Net income (loss)	\$ 144,953	\$ 76,177	\$ 75,048	\$ (138,029)	\$ (248,663)		
Net (income) loss attributable to noncontrolling interests	(287)	(379)	1,100	2,335	2,133		
Net income (loss) attributable to Sinclair Broadcast Group	\$ 144,666	\$ 75,798	\$ 76,148	\$ (135,694)	\$ (246,530)		
<b>Earnings (Loss) Per Common Share Attributable to Sinclair Broadcast Group:</b>							
Basic earnings (loss) per share from continuing operations	\$ 1.78	\$ 0.95	\$ 0.96	\$ (1.70)	\$ (2.87)		
Basic earnings (loss) per share	\$ 1.79	\$ 0.94	\$ 0.95	\$ (1.70)	\$ (2.87)		
Diluted earnings (loss) per share from continuing operations	\$ 1.78	\$ 0.95	\$ 0.95	\$ (1.70)	\$ (2.87)		
Diluted earnings (loss) per share	\$ 1.78	\$ 0.94	\$ 0.94	\$ (1.70)	\$ (2.87)		
Dividends declared per share	\$ 1.54	\$ 0.48	\$ 0.43	\$	\$ 0.80		

Table of Contents

	Years Ended December 31,				
	2012	2011	2010	2009	2008
<b>Balance Sheet Data:</b>					
Cash and cash equivalents	\$ 22,865	\$ 12,967	\$ 21,974	\$ 23,224	\$ 16,470
Total assets	\$ 2,729,697	\$ 1,571,417	\$ 1,485,924	\$ 1,590,029	\$ 1,816,407
Total debt (c)	\$ 2,273,379	\$ 1,206,025	\$ 1,212,065	\$ 1,366,308	\$ 1,362,278
Total (deficit) equity	\$ (100,053)	\$ (111,362)	\$ (157,082)	\$ (202,222)	\$ (58,700)

- (a) Net broadcast revenues is defined as broadcast revenues, net of agency commissions.
- (b) Depreciation and amortization includes depreciation and amortization of property and equipment and amortization of definite-lived intangible assets and other assets.
- (c) Total debt is defined as notes payable, capital leases and commercial bank financing, including the current and long-term portions.

## ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

Executive Overview a description of our business, financial highlights from 2012, information about industry trends and sources of revenues and operating costs;

Critical Accounting Policies and Estimates a discussion of the accounting policies that are most important in understanding the assumptions and judgments incorporated in the consolidated financial statements and a summary of recent accounting pronouncements;

Results of Operations a summary of the components of our revenues by category and by network affiliation or program service arrangement, a summary of other operating data and an analysis of our revenues and expenses for 2012, 2011 and 2010, including comparisons between years and certain expectations for 2013; and

Liquidity and Capital Resources a discussion of our primary sources of liquidity, an analysis of our cash flows from or used in operating activities, investing activities and financing activities, a discussion of our dividend policy and a summary of our contractual cash obligations and off-balance sheet arrangements.

We have two reportable operating segments, broadcast and other operating divisions that are disclosed separately from our corporate activities. Our broadcast segment includes our stations. Our other operating divisions segment primarily earned revenues in 2012 from sign design and fabrication; regional security alarm operating and bulk acquisitions; and real estate ventures.

STG, included in the broadcast segment and a wholly owned subsidiary of Sinclair Broadcast Group, Inc. (SBG), is the primary obligor under our Bank Credit Agreement, the 9.25% Notes, the 8.375% Notes and the 6.125% Notes. SBG is a guarantor under the Bank Credit Agreement, the 9.25% Notes, the 8.375% Notes and the 6.125% Notes. Our Class A Common Stock, Class B Common Stock, the 4.875% Convertible Senior Notes due 2018 (the 4.875% Notes) and the 3.0% Convertible Senior Notes due 2027 (the 3.0% Notes) remain obligations or securities of SBG and not obligations or securities of STG. SBG was the obligor of the 6.0% Notes until they were fully redeemed in 2011.

## EXECUTIVE OVERVIEW

### *2012 Events*

#### Acquisitions / Divestments:

- In January, we closed the acquisition of the assets of Four Points Media Group LLC (Four Points) for \$200.0 million, and financed the acquisition with a \$180.0 million draw under a recently raised incremental Term Loan B commitment under our amended Bank Credit Agreement plus a \$20.0 million cash escrow previously paid;
- In April 2012, we closed the acquisition of the broadcast assets of Freedom Communications (Freedom) for \$385.0

## Edgar Filing: SINCLAIR BROADCAST GROUP INC - Form 10-K

### Table of Contents

million, and financed the acquisition with an incremental draw of \$157.5 on Term loan A and an incremental draw of \$192.5 million on Term loan B under our Bank Credit Agreement plus a \$38.5 million escrow release previously paid in November 2011;

- In October, we entered into an agreement to purchase substantially all the assets of the WUTB-TV (MNT) station in Baltimore, MD owned by Fox Television Stations, Inc. (FTS) for \$2.7 million, subject to FCC approval and other closing conditions. Our agreement to purchase the license assets was assigned to Deerfield for \$0.3 million, bringing our net purchase price to \$2.4 million. Upon closing, we intend to provide sales and other non-programming services to this station pursuant to outsourcing arrangements;
- Effective December 1, 2012, we closed the asset acquisition of Bay TV, which owns WTTA-TV (MNT) in the Tampa / St. Petersburg, Florida market, for \$40.0 million. We have performed sales, programming and other management services for this station pursuant to a LMA since January 1999. The LMA was terminated upon closing;
- Effective December 1, 2012, we closed the asset acquisition of certain broadcast assets of Newport, for \$460.5 million (excludes amounts paid by Deerfield for the license assets of certain stations) as well as acquired Newport's rights under the local marketing agreements with WLYH-TV (CW) in Harrisburg, PA and KMTW-TV (MNT) in Wichita, KS, along with options to acquire the license assets of these stations. We financed the acquisition with the proceeds from our offering of 6.125% Senior Unsecured Notes due October 2022, which closed in October 2012 as described below, plus a \$41.3 million cash escrow previously paid;
- Effective December 1, 2012, we closed on our agreement to purchase the assets of KBTB-TV (FOX) located in Beaumont, TX for \$12.5 million (excluding amounts paid by Deerfield for the license assets);
- Effective December 1, 2012, we closed on our agreements with Deerfield to sell Deerfield the license assets of one of our stations in San Antonio (KMYS-TV CW) and our station in Cincinnati (WSTR-TV MNT) for a total of \$10.7 million, and assigned to Deerfield the right to buy the license assets of WPML-TV and WJTC-TV in the Mobile / Pensacola market, WHAM-TV in the Rochester, NY market and KBTB-TV in the Beaumont, TX market for \$13.5 million. We also acquired the options to acquire the license assets of these stations held by Deerfield. We provide sales and other non-programming services to each of these five stations pursuant to outsourcing agreements;
- On December 31, 2012 we closed on the purchase of the non-license assets of GoCom Media, Inc.'s (GoCom) three television stations, WRSP-TV (FOX), WCCU-TV (FOX), WBUI-TV (CW), in the Champaign / Springfield / Decatur, Illinois market for \$25.7 million, along with options for the license assets. We provide sales and other non-programming services to these stations pursuant outsourcing agreements.

### Other:

- In February, our Board of Directors declared a quarterly cash dividend of \$0.12 per share which was paid on March 15, 2012, to the holders of record at the close of business on March 1, 2012;
- In May, our Board of Directors declared a quarterly cash dividend of \$0.12 per share which was paid on June 15, 2012, to the holders of record at the close of business on June 1, 2012;
- On May 14, 2012, the Company and the licensees of stations to which we provide services, representing 20 affiliates of Fox Broadcast Company (FOX) in total, extended the network affiliation agreements with FOX from the existing term of December 31, 2012 to December 31, 2017. Concurrently, we entered into an assignable option agreement with FTS giving us or our assignee the right to purchase substantially all the assets of the WUTB-TV station (Baltimore, MD) owned by FTS, which has a program service arrangement with MyNetwork, and entered into an option agreement giving FTS the right to purchase our stations in up to three of the following four markets: Las Vegas, NV, Raleigh, NC, Cincinnati, OH, and Norfolk, VA. The option was due to expire March 30, 2013; however, in January 2013, FTS notified the Company that it would not exercise its option to purchase our stations in any of the aforementioned markets. In the second quarter of 2012, we paid \$25.0 million to FOX pursuant to the agreement and we are required to pay the last installment payment in the amount of \$25.0



## Edgar Filing: SINCLAIR BROADCAST GROUP INC - Form 10-K

million, due on April 26, 2013;

- In August, our Board of Directors declared a quarterly dividend of \$0.15 per share which was paid on September 14, 2012, to the holders of record at the close of business on August 31, 2012;
- In August, we entered into a multi-year retransmission consent agreement with DISH Network for continued carriage in all of our markets;
- In September, we entered into an amendment of our Bank Credit Agreement to provide more flexibility with restrictive covenants and permitted incremental indebtedness. There were no changes pertaining to interest rates or maturities of the outstanding debt or commitments under the Bank Credit Agreement;
- In October, we issued \$500.0 million aggregate principal amount of Senior Unsecured Notes due 2022 (the Notes). The Notes were priced at 100% of their principal amount and bear interest at a rate of 6.125% per annum payable semi-annually on April 1 and October 1, commencing on April 1, 2013. The Notes mature in October 2022 and are guaranteed by Sinclair and certain of its subsidiaries. See *Liquidity and Capital Resources* for more information;
- In November, our Board of Directors declared a quarterly cash dividend of \$0.15 per share and a special cash dividend of \$1.00 per share payable on December 14, 2012, to the holders of record at the close of business on November 30, 2012; and

Table of Contents

- In November, we entered into a multi-year retransmission consent agreement with Mediacom for continued carriage of our stations which are located in Mediacom's markets.

**2013 Events**

- Effective January 1, 2013, we entered into a six-year affiliation agreement with the CBS Network on its Portland, ME and Cedar Rapids, IA affiliates, expiring December 31, 2018;
- In January 2013, we entered into an agreement to sell the assets of WLWC-TV (CW) in Providence, Rhode Island to OTA Broadcasting LLC for \$13.8 million. The transaction is expected to close in the second quarter of 2013, subject to FCC approval and other closing conditions. As of December 31, 2012 the station is classified as held for sale and the results of operations are classified as discontinued operations;
- In February 2013, our Board of Directors declared a quarterly dividend of \$0.15 per share which is payable on March 15, 2013, to the holders of record at the close of business on March 1, 2013;
- In February 2013, we entered into an agreement to purchase certain stock and/or broadcast assets of four television stations, located in four markets, owned by COX Media Group for \$99.0 million less \$4.3 million of working capital adjustments, less amounts to be paid by third party companies, and entered into an agreement to provide sales services to one other station. The transaction is expected to close in the second quarter of 2013 subject to the approval of the FCC and customary antitrust clearance;
- In February 2013, we entered into an agreement to purchase the broadcast assets of 18 television stations owned by Barrington Broadcasting Group, LLC for \$370.0 million, less amounts to be paid by third parties, and entered into agreements to operate or provide sales services to another six stations. Also, the Company will sell its station WSYT-TV (FOX) and assign its LMA with WNYS-TV (MNT) in Syracuse, NY, and sell its station in Peoria IL, WYZZ-TV (FOX). The transaction is expected to close in the second quarter of 2013 subject to the approval of the FCC and customary antitrust clearance;
- In February, we entered into a retransmission consent agreement with DirecTV for continued carriage in all of our markets; and
- Effective March 1, 2013, we closed the sale of the assets of WLAJ-TV (ABC) in Lansing, MI to an unrelated third party for \$14.4 million. The related results from operations, net of related income taxes, have been reclassified from income from continuing operations and reflected as net income from discontinued operations.

**Industry Trends**

- Political advertising increases in even-numbered years, such as 2012, due to the advertising expenditures from candidates running in local and national elections and issue-related advertiser spending. In addition, political revenue has consistently risen between presidential election or mid-term election years such as from 2008 to 2012 or from 2006 to 2010, respectively. In every fourth year, such as 2012, political advertising is usually elevated further due to presidential elections;
- The FCC has permitted broadcast television stations to use their digital spectrum for a wide variety of services including multi-channel broadcasts. The FCC's must-carry rules only apply to a station's primary digital stream;

## Edgar Filing: SINCLAIR BROADCAST GROUP INC - Form 10-K

- Retransmission consent rules provide a mechanism for broadcasters to seek payment from MVPDs who carry broadcasters' signals. Recognition of the value of the programming content provided by broadcasters, including local news and other programming and network programming all in HD has generated increased local revenues;
- We, as well as a number of other broadcasters, have joined and worked together in organizations such as the NAB (along with OMVC now merged), M500 and the MCV to focus on efforts to accelerate the nationwide availability of mobile DTV and other advanced digital distribution services and work through the many programming, advertising, distribution and aggregation opportunities. There is potential for broadcasters to create an additional revenue stream by providing their signals to a wide variety of mobile / portable devices (tablets, laptops, smartphones, etc.) as well as through other multi-channel / multi-platform initiatives;
- Automotive-related advertising is a significant portion of our total net revenues in all periods presented and these revenues trended downward in most of 2009 due to the economic turmoil. However, this sector has dramatically trended upward in the past few years due to improved economic conditions;
- Many broadcasters are enhancing / upgrading their websites to use the internet to deliver rich media content, such as newscasts and weather updates, to attract advertisers and to compete with other internet sites and smart phone and tablet device applications;
- Seasonal advertising increases occur in the second and fourth quarters due to the anticipation of certain seasonal and holiday spending by consumers;
- Broadcasters have found ways to increase returns on their news programming initiatives while continuing to maintain

Table of Contents

locally produced content through the use of news sharing arrangements;

- Station outsourcing arrangements are becoming more common as broadcasters seek out ways to improve revenues and margins;
- Advertising revenue related to the Olympics occurs in even numbered years and the Super Bowl is aired on a different network each year. Both of these popularly viewed events can have an impact on our advertising revenues; and
- Compensation from networks to their affiliates in exchange for broadcasting of network programming has halted. Networks now require compensation from broadcasters for the use of network programming.

*Sources of Revenues and Costs*

Our operating revenues are derived from local and national advertisers and, to a much lesser extent, from political advertisers. We also generate local revenues from our retransmission consent agreements with MVPDs. Our revenues from local advertisers have seen a continued upward trend, with the exception of 2008 and 2009 when non-political revenues fell due to the economic recession. Revenues from national advertisers have continued to trend downward when measured as a percentage of total broadcast revenues. We believe this trend is the result of our focus on increasing local advertising revenues as a percentage of total advertising revenues, combined with a decrease in overall spending by national advertisers and an increase in the number of competitive media outlets providing national advertisers multiple alternatives in which to advertise their goods or services. Our efforts to mitigate the effect of these increasingly competitive media outlets for national advertisers include continuing our efforts to increase local revenues and developing innovative sales and marketing strategies to sell traditional and non-traditional services to our advertisers including the success of multi-channel digital initiatives together with mobile DTV. In addition, our revenue success is dependent on the success and advertising spending levels of the automotive industry.

**CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

This discussion and analysis of our financial condition and results of operations is based on our consolidated financial statements which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amount of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates including those related to bad debts, program contract costs, intangible assets, income taxes, property and equipment, and investments. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. These estimates have been consistently applied for all years presented in this report and in the past we have not experienced material differences between these estimates and actual results. However, because future events and their effects cannot be determined with certainty, actual results could differ from our estimates and such differences could be material.

We have identified the policies below as critical to our business operations and to the understanding of our results of operations. For a detailed discussion of the application of these and other accounting policies, see *Note 1. Nature of Operations and Summary of Significant Accounting Policies*, in the Notes to our Consolidated Financial Statements.

*Valuation of Goodwill, Long-Lived Assets, Intangible Assets and Equity and Cost Method Investments.*

We periodically evaluate our goodwill, broadcast licenses, long-lived assets, intangible assets and equity and cost method investments for potential impairment indicators. Our judgments regarding the existence of impairment indicators are based on estimated future cash flows, market conditions, operating performance of our stations, legal factors and other various qualitative factors.

We have determined our broadcast licenses to be indefinite-lived intangible assets in accordance with the accounting guidance for goodwill and other intangible assets, which requires such assets along with our goodwill to be tested for impairment on an annual basis or more often when certain triggering events occur. As of December 31, 2012, we had \$1,074.0 million of goodwill, \$85.1 million in broadcast licenses, and \$623.4 million in definite-lived intangibles. We perform our annual impairment tests for goodwill and broadcast licenses at the beginning of the fourth quarter each year.

In 2011, we early adopted the accounting guidance related to the annual goodwill impairment assessment, which allowed us, to first qualitatively assess whether it is more likely than not that goodwill has been impaired. As part of our qualitative assessment for goodwill impairment, we consider the following factors related to the reporting units, where applicable:

- Significant changes in the macroeconomic conditions;
- Significant changes in the regulatory environment;

Table of Contents

- Significant changes in the operating model, management, products and services, customer base, cost structure and/or margin trends;
- Comparison of current and prior year operating performance and forecast trends for future operating performance; and
- The excess of the fair value over carrying value of the reporting units determined in prior quantitative assessments.

If we conclude that it is more likely than not that a reporting unit is impaired, we will apply the quantitative two-step method for goodwill. Prior to 2011, the annual impairment test for goodwill was performed using the quantitative two-step method, for all reporting units. Our quantitative assessment for our goodwill consists of estimating the fair value of our reporting units, using a combination of a market approach, using recent comparable market transactions and estimated market multiples, and an income approach, using a discounted cash flow model. The key assumptions used to determine the fair value of our reporting units to test our goodwill for impairment consist of discount rates, revenue and expense growth rates and comparable business multiples. The projected growth rates are based on our internal forecast of future performance, historical trends, and projected long-range inflation and long-term industry projections. The discount rate is based on a number of factors including market interest rates, a weighted average cost of capital analysis based on the target capital structure for a television station, and includes adjustments for market risk and company specific risk. For goodwill, if we determine that the fair value of the reporting unit is less than the carrying value, we then perform the second step which requires allocation of the reporting unit's fair value to all of its assets and liabilities in a manner similar to a purchase price allocation, with any residual fair value being allocated to goodwill to determine the implied fair value. An impairment charge will be recognized only when the implied fair value of a reporting unit's goodwill is less than its carrying amount.

We early adopted the recent accounting guidance related to the annual indefinite-lived intangible asset impairment test, which allowed us, beginning with our 2012 indefinite-lived intangible impairment test, to first qualitatively assess whether it is more likely than not that an indefinite-lived intangible asset has been impaired. As part of our qualitative assessment for indefinite-lived intangible assets, we consider the following factors related to the indefinite-lived intangible asset, where applicable:

- Significant changes in cost factors that could affect the inputs used to determine the fair value of the indefinite-lived intangible asset;
- Significant changes in the legal or regulatory environment;
- Significant changes in management, key personnel, strategy or customers that could affect the inputs used to determine the fair value of the indefinite-lived intangible asset;
- Significant changes in the industry and/or market;
- Significant changes in macroeconomic conditions;
- Comparison of current and prior year operating performance and forecast trends for future operating performance; and
- The excess of the fair value over carrying value of the indefinite-lived intangible assets determined in prior quantitative assessments.

If we conclude that it is more likely than not that an indefinite-lived intangible asset is impaired, we will calculate the fair market value of the indefinite-lived intangible asset and compare to the book value. Prior to 2012, the annual impairment test for our indefinite-lived intangibles, broadcast licenses, involved a quantitative assessment in which we estimated the fair market value of our broadcast licenses and compared to the book value. We estimated the fair market value of our broadcast licenses using a discounted cash flow model. The key assumptions used to

## Edgar Filing: SINCLAIR BROADCAST GROUP INC - Form 10-K

determine the fair value of our broadcast licenses consist of discount rates, normalized market share, normalized profit margin, expected future growth rates and estimated start-up costs. We then compared the estimated fair market value to the book value of these assets to determine if impairment exists. For the broadcast licenses, if the fair value is less than book value, we would record the resulting impairment.

We aggregate our stations by market for purposes of our goodwill and license impairment testing and we believe that our markets are most representative of our broadcast reporting units because segment management views, manages and evaluates our stations on a market basis. Furthermore, in our markets where we operate or provide services to more than one station, certain costs of operating the stations are shared including the use of buildings and equipment, the sales force and administrative personnel. Our discounted cash flow model is based on our judgment of future market conditions within each designated marketing area, as well as discount rates that would be used by market participants in an arms-length transaction.

Based on the results of our annual qualitative assessment for goodwill impairment performed in 2012, we concluded that we would need to perform a quantitative Step 1 test for three of our markets which had aggregate goodwill of \$79.5 million as of October 1, 2012, the date of our annual impairment test. These markets had a decrease in operating results for the past few years and therefore, we estimated the fair value of these reporting units based on a market approach and income approach. For all three markets, the fair value of the reporting unit exceeded the respective carrying value by more than 10%. For all our other reporting

Table of Contents

units, we concluded based on the qualitative assessment that it was more likely than not that the fair values of these reporting units would sufficiently exceed their carrying values and it was not necessary to perform the quantitative two-step method. For the year ended December 31, 2012, an increase in our discount rate and/or a decrease in our multiple of 10% would not result in goodwill impairment. Based on the annual qualitative assessment for goodwill impairment performed in 2011, we concluded that it was more likely than not that the fair values of all reporting units would sufficiently exceed their carrying value and thus it was not necessary to perform the quantitative two-step method. The qualitative factors for our reporting units reviewed during our 2012 and 2011 assessments, with the exception of the three markets in which we performed a quantitative assessment, indicated stable or improving margins and favorable or stable forecasted economic conditions including stable discount rates and comparable business multiples. Additionally, the results of prior quantitative assessments supported significant excess fair value over carrying value of our reporting units. As a result of our 2010 annual quantitative impairment assessment, all of our reporting units had fair values in excess of carrying value and therefore, we did not record any goodwill impairment during the year ended December 31, 2010.

Based on the annual qualitative assessment for broadcast license impairment performed in 2012, we concluded that it was more likely than not that the fair values of all broadcast licenses would sufficiently exceed their carrying values and thus it was not necessary to perform a quantitative test. The qualitative factors for our broadcast licenses indicated an increase in market revenues, consistent expected market growth rates, stable market shares and stable cost factors from 2011 to 2012. We recorded a \$0.4 million interim impairment charge in the first quarter of 2011 due to an anticipated increase in construction costs for one of our stations as a result of converting to full power. As a result of our annual impairment test for broadcast licenses in 2011, we concluded that impairment did not exist. The revenue, expense and constant growth rates used in determining the fair value of our broadcast licenses increased slightly from 2010 to 2011. The discount rates used to determine the fair value of our broadcast licenses did not change significantly from 2010 to 2011. During the year ended December 31, 2010, we recorded \$4.8 million in impairment on our broadcast licenses and other assets. The \$4.8 million impairment charge recorded in 2010 was primarily the result of additional cash outflows for increased signal strength necessary to maintain competitive market positions.

We believe we have made reasonable estimates and utilized appropriate assumptions to evaluate whether it was more likely than not that the fair value of our reporting units and broadcast licenses was less than their carrying values. If future results are not consistent with our assumptions and estimates, including future events such as a deterioration of market conditions or significant increases in discount rates, we could be exposed to impairment charges in the future. Any resulting impairment loss could have a material adverse impact on our consolidated balance sheets, consolidated statements of operations and consolidated statements of cash flows.

For all other long-lived assets, including fixed assets and definite-lived intangibles, we assess recoverability of the assets whenever events or changes in circumstances indicate that the net book value of the assets may not be recoverable. If we conclude that such triggering event has occurred, we perform a two-step quantitative test to first assess whether the asset is recoverable by comparing the sum of undiscounted cash flows of the asset group to the carrying value of the asset group, including goodwill. If the sum of undiscounted cash flows is less than the carrying value of the asset group, we then measure and allocate the amount of impairment to record for each of the assets in the asset group by comparing the respective fair value of the assets to their carrying values. We did not have any indicators of impairment of our long-lived assets in 2010, 2011 or 2012.

When factors indicate that there may be a decrease in value of an equity or cost method investment, we assess that investment and determine whether a loss in value has occurred. If that loss is deemed to be other than temporary, an impairment loss is recorded. For any investments that indicate a potential impairment, we estimate the fair value of those investments using discounted cash flow models, unrelated third party valuations or industry comparables, based on the various facts available to us. During 2012 and 2010, we recorded \$1.3 million and \$6.7 million of impairment on equity method investments, respectively. No impairment of our equity or cost method investments was recorded 2011.



## Edgar Filing: SINCLAIR BROADCAST GROUP INC - Form 10-K

*Revenue Recognition.* Advertising revenues, net of agency commissions, are recognized in the period during which commercials are aired. All other revenues are recognized as services are provided. The revenues realized from station barter arrangements are recorded as the programs are aired at the estimated fair value of the advertising airtime given in exchange for the program rights. Some of our retransmission consent agreements contain both advertising and retransmission consent elements that are paid in cash. We have determined that these agreements are revenue arrangements with multiple deliverables. Advertising and retransmission consent deliverables sold under our agreements are separated into different units of accounting based on fair value. Revenue applicable to the advertising element of the arrangement is recognized consistent with the advertising revenue policy noted above. Revenue applicable to the retransmission consent element of the arrangement is recognized over the life of the agreement.

*Allowance for Doubtful Accounts.* We maintain an allowance for doubtful accounts for estimated losses resulting from extending credit to our customers that are unable to make required payments. If the economy and/or the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. For example, a 10% increase in the balance of our allowance for doubtful accounts as of December 31, 2012, would increase bad

Table of Contents

debt expense by approximately \$0.3 million. The allowance for doubtful accounts was \$3.1 million and \$3.0 million for the years ended December 31, 2012 and 2011, respectively.

*Program Contract Costs.* We have agreements with distributors for the rights to televise programming over contract periods, which generally run from one to seven years. Contract payments are made in installments over terms that are generally equal to or shorter than the contract period. Each contract is recorded as an asset and a liability at an amount equal to its gross cash contractual commitment when the license period begins and the program is available for its first showing. The portion of program contracts which become payable within one year is reflected as a current liability in the consolidated balance sheets. As of December 31, 2012 and 2011, we recorded \$69.3 million and \$54.5 million, respectively, in program contract assets and \$104.4 million and \$91.5 million, respectively, in program contract liabilities.

The programming rights are reflected in the consolidated balance sheets at the lower of unamortized cost or estimated net realizable value (NRV). Estimated NRVs are based on management's expectation of future advertising revenue, net of sales commissions, to be generated by the remaining program material available under the contract terms. Amortization of program contract costs is generally computed using a four-year accelerated method or a straight-line method, depending on the length of the contract. Program contract costs estimated by management to be amortized within one year are classified as current assets. Program contract liabilities are typically paid on a scheduled basis and are not impacted by adjustments for amortization or estimated NRV. If our estimate of future advertising revenues declines, then additional write downs to NRV may be required.

*Income Tax.* We recognize deferred tax assets and liabilities based on the differences between the financial statements carrying amounts and the tax bases of assets and liabilities. As of December 31 2011, we recorded \$4.9 million in deferred tax assets. As of December 31, 2012 and 2011, we recorded \$234.1 million and \$247.6 million, respectively, in deferred tax liabilities. 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 existing temporary book/tax basis differences, alternative tax strategies and projected future taxable income.

***Recent Accounting Pronouncements***

In May 2011, the Financial Accounting Standards Board (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 were 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 September 2011, the FASB issued the final Accounting Standards Update for goodwill impairment testing. The standard allows an entity to first consider qualitative factors when deciding whether it is necessary to perform the current two-step goodwill impairment test. An entity would need to perform step-one if it determines qualitatively that it is more-likely-than-not that the fair value of a reporting unit is less than its carrying amount. The changes are effective prospectively for annual and interim goodwill impairment tests performed for fiscal years beginning

after December 15, 2011. We adopted this new guidance in the fourth quarter of 2011 in completing our annual impairment analysis. See *Note 5. Goodwill, Broadcast Licenses and Other Intangible Assets* for further discussion of the results of our goodwill impairment analysis. This guidance impacts how we perform the annual goodwill impairment test; however, it did not impact our consolidated financial statements as the guidance does not impact the timing or amount of any resulting impairment charges.

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 adopted this new guidance in the fourth quarter of 2012 when completing our annual impairment analysis. See *Note 5. Goodwill, Broadcast Licenses and Other Intangible Assets* for further discussion of the results of our broadcast license impairment analysis. This guidance impacted how we perform our annual impairment testing for

Table of Contents

indefinite-lived intangible assets and changed our related disclosures for 2012; however, it does not have an impact on our consolidated financial statements as the guidance does not impact the timing or amount of any resulting impairment charges.

**RESULTS OF OPERATIONS**

In general, this discussion is related to the results of our continuing operations, except for discussions regarding our cash flows, which also include the results of our discontinued operations. The results of the acquired stations from Four Points as of January 1, 2012 (acquisition date), from Freedom as of April 1, 2012 (acquisition date) and Newport as of December 1, 2012 (acquisition date) are included in our results of our continuing operations. In 2012, we determined that the operating results of WLAJ-TV, which was one of the stations acquired in the Freedom acquisition, and WLWC-TV, which was one of the stations acquired in the Four Points acquisition, should be accounted for as discontinued operations and therefore the results are not included in our consolidated results of continuing operations year ended December 31, 2012. Unless otherwise indicated, references in this discussion and analysis to 2012, 2011 and 2010 are to our fiscal years ended December 31, 2012, 2011 and 2010, respectively. Additionally, any references to the first, second, third or fourth quarters are to the three months ended March 31, June 30, September 30 and December 31, respectively, for the year being discussed. We have two reportable segments, broadcast and other operating divisions that are disclosed separately from our corporate activities.

*Seasonality / Cyclicity*

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

Our operating results are usually subject to fluctuations from political advertising. In even numbered years, political spending is usually significantly higher than in odd numbered years due to advertising expenditures preceding local and national elections. Additionally, every four years, political spending is usually elevated further due to advertising expenditures preceding the presidential election.

*Operating Data*

The following table sets forth certain of our operating data from continuing operations for the years ended December 31, 2012, 2011 and 2010 (in millions). For definitions of terms, see the footnotes to the table in *Item 6. Selected Financial Data*.

	Years Ended December 31,		
	2012	2011	2010
Net broadcast revenues	\$ 920.6	\$ 648.0	\$ 655.8
Revenues realized from station barter arrangements	86.9	72.8	75.2
Other operating divisions revenues	54.2	44.5	36.6
Total revenues	1061.7	765.3	767.6
Station production expenses	255.5	178.6	154.1

Edgar Filing: SINCLAIR BROADCAST GROUP INC - Form 10-K

Station selling, general and administrative expenses	171.3	123.9	127.1
Expenses recognized from station barter arrangements	79.8	65.7	67.1
Depreciation and amortization	146.2	103.3	116.0
Other operating divisions expenses	46.2	39.5	30.9
Corporate general and administrative expenses	33.4	28.3	26.8
Impairment of goodwill, intangible and other assets		0.4	4.8
Operating income	\$ 329.3	\$ 225.6	\$ 240.8
Net income attributable to Sinclair Broadcast Group	\$ 144.7	\$ 75.8	\$ 76.1

Table of Contents**BROADCAST SEGMENT***Broadcast Revenues*

The following table presents our revenues from continuing operations, net of agency commissions, for the three years ended December 31, 2012, 2011 and 2010 (in millions):

	2012	2011	2010	Percent Change	
				12 vs. 11	11 vs. 10
<b>Local revenues:</b>					
Non-political	\$ 643.5	\$ 498.7	\$ 464.0	29.0%	7.5%
Political	12.9	2.5	12.8	(a)	(a)
Total local	656.4	501.2	476.8	31.0%	5.1%
<b>National revenues:</b>					
Non-political	180.2	141.0	149.8	27.8%	(5.9)%
Political	84.0	5.8	29.2	(a)	(a)
Total national	264.2	146.8	179.0	80.0%	(18.0)%
Total net broadcast revenues	\$ 920.6	\$ 648.0	\$ 655.8	42.1%	(1.2)%

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

Our largest categories of advertising and their approximate percentages of 2012 net time sales, which include the advertising portion of our local and national broadcast revenues, were automotive (20.8%), political (14.0%), services (13.9%), schools (5.9%) and retail / department stores (5.0%). No other advertising category accounted for more than 5.0% of our net time sales in 2012. No advertiser accounted for more than 1.2% of our consolidated revenue in 2012. We conduct business with thousands of advertisers.

Our primary types of programming and their approximate percentages of 2012 net time sales were syndicated programming (36.7%), network programming (24.2%), local news (25.1%), sports programming (8.1%) and direct advertising programming (5.9%).

From a network affiliation or program service arrangement perspective, the following table sets forth our affiliate percentages of net time sales for the years ended December 31, 2012 and 2011:

	# of Stations(a)	Percent of Net Time Sales for the Twelve Months Ended December 31,		Net Time Sales Percent Change	
		2012	2011	12 vs. 11(c)	11 vs. 10
FOX	24	36.9%	47.4%	9.6%	(2.1)%
ABC	11	19.5%	20.5%	33.1%	(11.8)%

Edgar Filing: SINCLAIR BROADCAST GROUP INC - Form 10-K

CBS	11	18.6%	3.0%	786.2%	(7.4)%
MyNetworkTV	19	12.5%	15.8%	11.0%	(5.8)%
The CW	15	10.7%	12.4%	22.0%	(10.9)%
NBC	3	1.0%	0.5%	169.7%	(23.2)%
Digital	(b)	0.7%	0.4%	110.8%	215.2%
Other	2	0.1%	N/A	nm	nm
Total	85				

---

nm- Not meaningful

N/A- Not applicable

(a) During 2012, we acquired or entered into outsourcing agreements to provide certain non-programming related sales, operational and administrative services to 27 stations with the following network affiliation or program service arrangements: CBS (two stations in the first quarter, five stations in the second quarter and two stations in the fourth quarter), NBC (two stations in the fourth quarter), FOX (four stations in the fourth quarter), ABC (one station in the second quarter and one station in the fourth quarter), CW (two stations in the first quarter, one station in the second quarter and two stations in the fourth quarter), MyNetworkTV (two stations in the first quarter and one station in the fourth quarter), Other (one station in the first quarter and one station in the fourth quarter). We reclassified the results of operations of WLAJ-TV, an ABC station acquired in the second quarter and WLWC-TV a CW station acquired in the first quarter, as discontinued operations as discussed in *Note 1. Summary of Significant Accounting Policies* and therefore the net time sales of WLAJ-TV and WLWC-TV are not included in the percentages above and are excluded from the number of stations.

Table of Contents

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

(c) The amount of increases in net time sales related to 2012 acquisitions was: FOX 0.4%, ABC 10.4%, CBS 752.6%, MyNetworkTV 3.2%, CW 19.3%, NBC 124.0% and Digital 159.8%.

*Net Broadcast Revenues.* Net broadcast revenues increased \$272.6 million for 2012 when comparing to 2011, of which \$164.2 million was related to stations acquired during 2012. Additionally, revenues earned pursuant to the LMA with the Freedom stations during the first quarter of 2012 included \$2.2 million for management services performed and \$7.8 million of pass-through costs. The remaining increase was due to increases in advertising revenues generated from the political, direct response and beer / wine sectors. These increases were partially offset by a decrease in the internet, soft drinks, movies and drugs / cosmetic sectors. Excluding the stations acquired in 2012, automotive, which typically is our largest category, represented 20.3% of net time sales for the year ended December 31, 2012.

From a revenue category standpoint, 2011 when compared to 2010 was impacted by increases in most of the advertising sectors as the country's economic conditions in general continued to strengthen. Automotive, our largest category in 2011, was up 9.7% compared to 2010 as automotive dealers and manufacturers increased spending in response to an increase in auto sales.

*Political Revenues.* Political revenues, which include time sales from political advertising, increased by \$88.6 million to \$96.9 million for 2012 when compared to 2011. Political revenues decreased by \$33.7 million to \$8.3 million for 2011 when compared to 2010. Political revenues are typically higher in election years such as 2012 and 2010. Accordingly, we expect political revenues to decrease in 2013 from 2012 levels.

*Local Revenues.* Excluding political revenues, our local broadcast revenues, which include local times sales, retransmission revenues and other local revenues, were up \$144.8 million for 2012 when compared to 2011, of which \$112.1 million related to the stations acquired in 2012. The remaining increase is due to an increase in advertising spending particularly in the automotive and direct response sectors and an increase in retransmission revenues from MVPDs. These increases were partially offset by a decrease due to a decline in advertising revenues from the schools, fast food and services sectors and a change in networks for the Super Bowl programming from FOX to NBC as we had 20 FOX stations compared to one NBC station at the time when the Super Bowl aired in February 2012. Excluding political revenues, our local broadcast revenues, which include local times sales, retransmission revenues and other local revenues, were up \$34.7 million for 2011, compared to 2010. The increase is due to an increase in advertising spending particularly in the automotive sector, an increase in retransmission revenues from MVPDs and amounts earned for services performed pursuant to the Four Points and Freedom LMAs (\$2.2 million for management services performed and \$7.8 million of pass-through costs).

*National Revenues.* Our national broadcast revenues, excluding political revenues, which include national time sales and other national revenues, were up \$39.2 million for 2012 when compared to 2011, of which \$38.5 million related to the stations acquired in 2012. The remaining increase was due to increases in advertising revenues generated from the direct response and services sectors. These increases were partially offset by a decline in advertising revenues in telecommunications and the drugs / cosmetic sectors. Excluding political revenues, our national broadcast revenues were down \$8.8 million for 2011 when compared to 2010. This was primarily due to a decrease in advertising spending by the media, telecommunications, home products, professional services and movies sectors.





Table of Contents**Broadcast Expenses**

The following table presents our significant operating expense categories for the years ended December 31, 2012, 2011 and 2010 (in millions):

	2012	2011	2010	Percent Change (Increase / (Decrease))	
				12 vs. 11	11 vs. 10
Station production expenses	\$ 255.5	\$ 178.6	\$ 154.1	43.1%	15.9%
Station selling, general and administrative expenses	\$ 171.3	\$ 123.9	\$ 127.1	38.3%	(2.5)%
Amortization of program contract costs and net realizable value adjustments	\$ 61.0	\$ 52.1	\$ 60.9	17.1%	(14.4)%
Corporate general and administrative expenses	\$ 28.9	\$ 24.8	\$ 23.7	16.5%	4.6%
Impairment of goodwill, intangible and other assets	\$	\$ 0.4	\$ 4.8	(100.0)%	(91.7)%
Depreciation and amortization expenses	\$ 77.5	\$ 44.6	\$ 49.2	73.8%	(9.3)%

*Station production expenses.* Station production expenses increased \$76.9 million during 2012 compared to 2011, of which \$42.7 million related to the stations acquired in 2012. The remaining increases for the year were primarily due to an increase in fees pursuant to network affiliation agreements, increased compensation expense, increased employee / management incentive bonuses, increased news profit sharing expenses and increased rating service fees due to annual scheduled rate increases.

Station production expenses increased \$24.5 million during 2011 compared to 2010. This increase was primarily due to an increase in fees pursuant to network affiliation agreements, increased compensation expense (including amounts related to the Four Points and Freedom stations pursuant to the LMAs prior to acquisition, which were pass-through costs), increased promotional advertising expenses and increased rating service fees due to annual scheduled rate increases. Additionally, news profit share expenses increased due to better news performance which resulted in higher payments to our news share partners.

*Station selling, general and administrative expenses.* Station selling, general and administrative expenses increased \$47.4 million during 2012 compared to 2011, of which \$38.4 million related to the stations acquired in 2012. The remaining increases for the year were primarily due to employee / management incentive bonuses, an increase in national sales commissions and increased compensation expense.

Station selling, general and administrative expenses decreased \$3.2 million during 2011 compared to 2010. This decrease was primarily due to lower non-income based tax expense, a decrease in stock-based compensation and decreased national sales agency and local commission costs. These decreases were partially offset by an increase in expenses related to rollout of expanded digital product offerings.

We expect 2013 station production and station selling, general and administrative expenses, excluding barter and full year effect on 2012 acquisitions, to trend higher than our 2012 results.

*Amortization of program contract costs and net realizable value adjustments.* The amortization of program contract costs increased \$8.9 million during 2012 compared to 2011, of which \$7.1 million related to the stations acquired in 2012. The remaining increases for the year are due to more long-term program contracts, which resulted in higher contract cost amortization.

The amortization of program contract costs decreased \$8.8 million during 2011 compared to 2010. We had purchased more barter and short-term program contracts which are less expensive and resulted in lower contract cost amortization.

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

*Impairment of goodwill, intangible and other assets.* We completed our annual test of goodwill and broadcast licenses for impairment in fourth quarter 2012, 2011 and 2010. We recorded no impairment in 2012. During 2011, we recorded impairments of \$0.4 million related to our broadcast licenses. During 2010, we recorded impairments of \$4.8 million related to our broadcast licenses and other assets.

*Depreciation and amortization expenses.* Depreciation of property and equipment and amortization of definite-lived intangibles and other assets increased \$32.9 million during 2012 compared 2011, of which \$32.2 million related to the stations acquired in 2012.

Table of Contents

Depreciation and amortization expenses decreased \$4.6 million during 2011 compared to 2010. This decrease was primarily due to older assets that were becoming fully depreciated.

**OTHER OPERATING DIVISIONS SEGMENT REVENUE AND EXPENSE**

The following table presents our other operating divisions segment revenue and expenses which is comprised of the following for the years ended December 31, 2012, 2011 and 2010 (in millions): Triangle Signs & Services, LLC (Triangle), a sign designer and fabricator; Alarm Funding Associates, LLC. (Alarm Funding), a regional security alarm operating and bulk acquisition company; real estate ventures and other nominal businesses.

	2012	2011	2010	Percent Change	
				12 vs. 11	11 vs. 10
<b>Revenues:</b>					
Triangle	\$ 26.5	\$ 23.1	\$ 19.1	14.7%	20.9%
Alarm Funding	\$ 16.0	\$ 12.8	\$ 10.0	25.0%	28.0%
Real Estate Ventures and other	\$ 11.7	\$ 8.6	\$ 7.5	36.0%	14.7%
<b>Expenses: (a)</b>					
Triangle	\$ 25.9	\$ 21.8	\$ 19.8	18.8%	10.1%
Alarm Funding	\$ 12.9	\$ 12.7	\$ 8.0	1.6%	58.8%
Real Estate Ventures and other	\$ 17.2	\$ 12.3	\$ 9.8	39.8%	25.5%

(a) Comprises total expenses of the entity including other operating divisions expenses, depreciation and amortization and applicable other income (expense) items such as interest expense and non-cash stock-based compensation expense related to issuances of subsidiary stock awards.

The year over year increases in Triangle's revenue and expenses during 2012 compared to 2011 and 2011 compared to 2010 was primarily due to increases in sales volume due to new service contracts. The increases in Alarm Funding's revenue and expenses during 2012 compared to 2011 and 2011 compared to 2010 was primarily due to the acquisition of new alarm monitoring contracts. Revenues and expenses have increased for our consolidated real estate ventures over the same periods due to an increase in leasing activity for operating real estate properties and sales of property under development in 2012 compared to 2011. As of December 31, 2012, we held \$71.7 million of real estate for development and sale.

*Income (loss) from Equity and Cost Method Investments.* As of December 31, 2012 and 2011, the carrying value of our investments in private equity funds and real estate ventures, accounted for under the equity or cost method, was \$27.3 million and \$65.9 million in 2012 and \$26.3 million and \$52.6 million in 2011, respectively. Results of our equity and cost method investments in private investment funds and real estate ventures are included in income from equity and cost method investments in our consolidated statements of operations. During 2012, we recorded income of \$2.2 million related to certain private investment funds and income of \$7.4 million related to our real estate ventures, including a \$7.9 million gain on the sale of three of our real estate ventures, partially offset by a \$0.9 million impairment charge related to one of our real estate ventures. During 2011, we recorded income of \$2.3 million related to certain private equity funds and income of \$1.0 million related to our real estate ventures, including a \$1.1 million gain on sale of one of our real estate ventures. During 2010, we determined three of our investments were impaired, primarily due to decreases in underlying values of our real estate investments, and we recorded impairments totaling \$6.7 million. Additionally, during 2010, we recorded losses of \$1.7 million related to other real estate ventures and income of \$3.6

million related to certain private equity funds.

**CORPORATE AND UNALLOCATED EXPENSES**

				Percent Change (Increase / (Decrease))	
	2012	2011	2010	12 vs. 11	11 vs. 10
Corporate general and administrative expenses	\$ 2.8	\$ 2.4	\$ 2.2	16.7%	9.1%
Interest expense	\$ 125.3	\$ 102.4	\$ 114.1	22.4%	(10.3)%
Loss from extinguishment of debt	\$ (0.3)	\$ (4.8)	\$ (6.3)	(93.8)%	(23.8)%
Income tax provision	\$ (67.9)	\$ (44.8)	\$ (40.2)	51.6%	11.4%

Table of Contents

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

Combined corporate general and administrative expenses increased to \$31.7 million in 2012 from \$27.2 million in 2011. This is primarily due to an increase in transaction costs due to our recent acquisitions, an increase in higher group insurance costs and higher employee incentive / performance bonuses.

Combined corporate general and administrative expenses increased to \$27.2 million in 2011 from \$25.9 million in 2010. This is primarily due to an increase in employee bonuses, stock-based compensation from the issuance of stock-settled appreciation rights and the issuance of restricted and unrestricted common stock at higher stock prices when compared to 2010. The increases were partially offset by lower health and other insurance costs.

We expect corporate general and administrative expenses to increase in 2013 compared to 2012.

*Interest expense.* Interest expense increased in 2012 compared to 2011 primarily due to the incremental borrowings on our Term Loan A and Term Loan B under our Bank Credit Agreement for our acquisitions in 2012, the issuance of \$500.0 million of 6.125% notes in the fourth quarter of 2012, as well as financing costs of \$6.3 million related to the amendment of our Bank Credit Agreement, which were incurred in 2012. The increase in interest was partially offset by a decrease due to the full extinguishment of our 6.0% Notes in the second quarter of 2011.

Interest expense decreased in 2011 compared to 2010 primarily due to our amending and restating the Bank Credit Agreement in third quarter 2010 and the first quarter 2011, resulting in lower interest rates. In addition, interest expense decreased due to the redemption of our 8.0% Notes in fourth quarter 2010 and our 6.0% Notes in 2010 and second quarter 2011. These decreases were partially offset by certain financing costs recorded as interest expense during 2011 and 2010 of \$6.1 million and \$3.6 million, respectively, related to the amendments to the Bank Credit Agreement, mentioned previously, as well as the amendment in the fourth quarter 2011.

We expect interest expense to increase in 2013 compared to 2012 due to the acquisition financing.

*Loss from extinguishment of debt.* During the year ended December 31, 2012, we drew down on our incremental borrowings under the Bank Credit Agreement and wrote off a portion of our deferred financing costs and debt discount on the Term Loan B, resulting in a loss of \$0.3 million from extinguishment of debt.

During the year ended December 31, 2011, we amended our Bank Credit Agreement and paid down a portion of our Term Loan B, completed the redemption of all \$70.0 million of the remaining 6.0% Notes and repurchased certain of our 8.375% Notes, resulting in a loss of \$4.8 million

from extinguishment of debt.

*Income tax (provision) benefit.* The 2012 income tax provision for our pre-tax income from continuing operations (including the effects of the noncontrolling interest) of \$212.1 million resulted in an effective tax rate of 32.0%. The 2011 income tax provision for our pre-tax income from continuing operations (including the effects of the noncontrolling interest) of \$121.0 million resulted in an effective tax rate of 37.0%. The decrease in the effective tax rate from 2011 to 2012 is primarily due to a release of valuation allowance of \$7.7 million related to certain deferred tax assets of Cunningham, one of our consolidated VIEs, as the weight of all available evidence supports realization of the deferred tax assets. The valuation allowance release determination was based primarily on the sufficiency of forecasted taxable income necessary to utilize NOLs expiring in years 2022 - 2029. This VIE files separate income tax returns. Any resulting tax liabilities are nonrecourse to us and we are not entitled to any benefit resulting from the deferred tax assets of the VIE.

As of December 31, 2012, we had a net deferred tax liability of \$235.4 million (including \$1.3 million classified as held for sale) as compared to a net deferred tax liability of \$242.6 million as of December 31, 2011. The decrease primarily relates to an increase in deferred tax assets of Cunningham, one of our consolidated VIEs, primarily as a result of a release of valuation allowance.

The 2011 income tax provision for our pre-tax income from continuing operations (including the effects of the noncontrolling interest) of \$121.0 million resulted in an effective tax rate of 37.0%. The 2010 income tax provision for our pre-tax income from continuing operations (including the effects of the noncontrolling interest) of \$117.0 million resulted in an effective tax rate of 34.4%. The increase in the effective tax rate from 2011 to 2010 is primarily due to a \$2.3 million tax benefit recorded in 2010, predominantly resulting from a change in estimate related to an increased deduction for the recovery of historical losses attributable to a disposition that took place in 2009.

Table of Contents

As of December 31, 2012, we had \$26.0 million of gross unrecognized tax benefits. Of this total, \$15.0 million (net of federal effect on state tax issues) and \$6.8 million (net of federal effect on state tax issues) represent the amounts of unrecognized tax benefits that, if recognized, would favorably affect our effective tax rates from continuing operations and discontinued operations, respectively. As of December 31, 2011, we had \$26.1 million of gross unrecognized tax benefits. Of this total, \$15.1 million (net of federal effect on state tax issues) and \$6.8 million (net of federal effect on state tax issues) represent the amounts of unrecognized tax benefits that, if recognized, would favorably affect our effective tax rates from continuing operations and discontinued operations, respectively. We recognized \$1.5 million and \$1.3 million of income tax expense for interest related to uncertain tax positions for the years ended December 31, 2012 and 2011, respectively. See *Note 9. Income Taxes* in the Notes to our Consolidated Financial Statements for further information.

**LIQUIDITY AND CAPITAL RESOURCES**

As of December 31, 2012, we had \$22.9 million in cash and cash equivalent balances and net negative working capital of approximately \$3.2 million. Cash generated by our operations and borrowing capacity under the Bank Credit Agreement are used as our primary source of liquidity. As of December 31, 2012, we had \$49.5 million of borrowing capacity available and \$48.0 million drawn on our Revolving Credit Facility. We anticipate that existing cash and cash equivalents, cash flow from our operations and borrowing capacity under the Revolving Credit Facility and general uncommitted incremental term loan capacity of \$500.0 million under our Bank Credit Agreement will be sufficient to satisfy our debt service obligations, capital expenditure requirements and working capital needs for the next twelve months. For our long-term liquidity needs, in addition to the sources described above, we may rely upon the issuance of long-term debt, the issuance of equity or other instruments convertible into or exchangeable for equity, or the sale of non-core assets. However, there can be no assurance that additional financing or capital or buyers of our non-core assets will be available, or that the terms of any transactions will be acceptable or advantageous to us.

We drew \$180.0 million of the additional term loans to fund the acquisition of assets of Four Points, which closed in January 2012 and drew \$350.0 million of the additional term loans to fund the acquisition of assets of Freedom, which closed in April 2012.

On September 20, 2012, we entered into an amendment (the Amendment) of our Bank Credit Agreement. Under the Amendment, we increased our incremental term loan capacity from \$300.0 million to \$500.0 million. Also under the Amendment, the level of permitted unsecured indebtedness increased from \$450.0 million to \$850.0 million, subject to certain limitations, and increased our ratio of our First Lien Indebtedness from 3.25 times EBITDA to 3.75 times EBITDA through December 31, 2014 with a decrease to 3.50 times EBITDA through maturity of the agreement. Other amended terms provided us with increased television station acquisition capacity, more flexibility under the other restrictive covenants and prepayments of the existing term loans. There were no changes pertaining to interest rates or maturities of the outstanding debt or commitments under the Bank Credit Agreement.

On October 12, 2012, we issued \$500.0 million of Senior Unsecured Notes due on October 1, 2022, pursuant to an indenture (the Indenture) dated October 12, 2012. The Notes were priced at 100% of their par value and will bear interest at a rate of 6.125% per annum payable semi-annually on April 1 and October 1, commencing on April 1, 2013. Prior to October 1, 2017, we may redeem the Notes, in whole or in part, at any time or from time to time at a price equal to 100% of the principal amount of the Notes plus accrued and unpaid interest, if any, to the redemption date, plus a make-whole premium as set forth in the Indenture. Beginning on October 1, 2017, we may redeem some or all of the Notes at any time or from time to time at a redemption price set forth in the Indenture. In addition, on or prior to October 1, 2015, we may redeem up to 35% of the Notes using proceeds of certain equity offerings. We used part of the proceeds of this offering to finance the acquisitions in the fourth quarter, as described under the *Executive Overview*, including the acquisition of certain television stations from Newport. We used the remaining proceeds of this offering to partially fund the special dividend paid in December.





Table of Contents*Sources and Uses of Cash*

The following table sets forth our cash flows for the years ended December 31, 2012, 2011 and 2010 (in millions):

	<b>2012</b>		<b>2011</b>		<b>2010</b>
Net cash flows from operating activities	\$ 237.5	\$	148.5	\$	155.0
Cash flows from (used in) investing activities:					
Acquisition of property and equipment	\$ (44.0)	\$	(35.8)	\$	(11.7)
Acquisition of television stations	(1,135.3)				
Decrease (increase) in restricted cash	58.5		(53.4)		59.6
Dividends and distributions from equity and cost method investees	9.6		3.8		0.9
Purchase of alarm monitoring contracts	(12.5)		(8.9)		(10.1)
Investments in equity and cost method investees	(24.1)		(11.6)		(7.2)
Other	(1.5)		(6.3)		0.4
Net cash flows (used in) from investing activities	\$ (1,149.3)	\$	(112.2)	\$	31.9
Cash flows from (used in) financing activities:					
Proceeds from notes payable, commercial bank financing and capital leases	\$ 1,247.2	\$	151.7	\$	283.9
Repayments of notes payable, commercial bank financing and capital leases	(179.3)		(150.4)		(427.4)
Payments for deferred financing costs	(18.7)		(5.5)		(7.0)
Dividends paid on Class A and Class B Common Stock	(123.9)		(38.4)		(34.2)
Other	(3.6)		(2.7)		(3.4)
Net cash flows from (used in) financing activities	\$ 921.7	\$	(45.3)	\$	(188.1)

*Operating Activities*

Net cash flows from operating activities increased during the year ended December 31, 2012 compared to the same period in 2011. During 2012, we received more cash receipts from customers, net of cash payments to vendors, partially offset by higher interest and tax payments and the \$25.0 million payments to FOX pursuant to the agreements entered into during the second quarter of 2012.

Net cash flows from operating activities decreased during the year ended December 31, 2011 compared to the same period in 2010. During 2011, we received less cash receipts from customers, net of cash payments to vendors, in addition to other negative working capital changes, which was partially offset by lower interest and program payments. Additionally, we received net tax refunds in 2010 compared to net cash taxes paid in 2011.

We expect both interest expense and program payments to increase in 2013 compared to 2012.

*Investing Activities*

Net cash flows used in investing activities increased during the year ended December 31, 2012 compared to the same period in 2011. This increase is due to \$1,135.3 million in payments for acquisitions of television stations, additional investment in equity investees, higher capital expenditures and the purchases of alarm monitoring contracts. This increase was partially offset by the use of the restricted cash held in escrow for our acquisitions and distributions received upon sale of three of our equity method investments during 2012.

With the exception of changes in restricted cash, net cash flows used in investing activities increased during the year ended December 31, 2011 compared to the same period in 2010. During 2011, we had higher capital expenditures primarily for news operations and upgrades to our master control systems in order to upgrade these operations to HD. Additionally, we made more investments in our other operating divisions. Restricted cash increased due to amounts required to be deposited in escrow accounts pursuant to the asset purchase agreements with Four Points and Freedom.

In 2013, we anticipate incurring fewer capital expenditures than incurred in 2012.

Table of Contents

***Financing Activities***

Net cash flows from financing activities increased during the year ended December 31, 2012 compared to the same period in 2011. During 2012, we drew \$530.0 million of incremental term loans to fund the asset acquisitions of both Four Points and Freedom, which closed in January 2012 and April 2012, respectively. We also issued \$500.0 million of Senior Unsecured Notes and used the proceeds to fund the acquisitions in the fourth quarter. This was slightly offset by higher stock dividends paid in 2012 totaling \$1.54 per share, which included the \$1.00 per share special dividend paid in December, versus \$0.48 per share in 2011, as well as, \$13.2 million more in payments for deferred financing costs related to the incremental borrowings in 2012.

Net cash flows used in financing activities decreased during the year ended December 31, 2011 compared to the same period in 2010. During 2011, we amended our Bank Credit Agreement resulting in a new Term Loan A of \$115.0 million and reducing our Term Loan B by \$45.0 million. Additionally, we completed the redemption of the remaining \$70.0 million of the 6.0% Notes at 100% of the face value of such notes plus accrued and unpaid interest. The redemption of the 6.0% Notes was effected in accordance with the terms of the indenture governing the 6.0% Notes and was funded from the net proceeds of our new Term Loan A. During 2010, we purchased \$117.7 million principal amount of our 3.0% Notes, 4.87%% Notes and 6.0% Notes pursuant to a combination of tender offers, put rights and open market purchases. In addition, we fully extinguished the outstanding \$224.7 million principal amount of 8.0% Notes.

From time to time, we may repurchase additional outstanding debt and stock on the open market. We expect to fund any repurchases with cash generated from operating activities and in some cases, borrowings under our Revolving Credit Facility.

During 2011, our Board of Directors declared quarterly dividends on common stock, of \$0.12 per share. Dividends of \$0.12 per share were paid in March 2011, June 2011, September 2011 and December 2011, for total dividend payments of \$0.48 per share for the year ended December 31, 2011. During 2012, our Board of Directors declared a quarterly dividend of \$0.12 per share in the months of February and May, which were paid in March and June, and \$0.15 per share in the months of August and November, which were paid in September and December. A special cash dividend of \$1.00 per share was also declared in November 2012, which was paid in December, for total dividend payments of \$1.54 per share for the year ended December 31, 2012. In February 2013, our Board of Directors declared a quarterly dividend of \$0.15 per share. Future dividends on our common shares, if any, will be at the discretion of our Board of Directors and will depend on several factors including our results of operations, cash requirements and surplus, financial condition, covenant restrictions and other factors that the Board of Directors may deem relevant. The Class A Common Stock and Class B Common Stock holders have the same rights related to dividends. Under our Bank Credit Agreement, in certain circumstances we may make up to \$100.0 million in unrestricted annual cash payments including but not limited to dividends, of which \$50.0 million may carry over to the next year.

***Contractual Obligations***

We have various contractual obligations which are recorded as liabilities in our consolidated financial statements. Other items, such as certain purchase commitments and other executory contracts are not recognized as liabilities in our consolidated financial statements but are required to be disclosed. For example, we are contractually committed to acquire future programming and make certain minimum lease payments for the use of property under operating lease agreements.

Edgar Filing: SINCLAIR BROADCAST GROUP INC - Form 10-K

The following table reflects a summary of our contractual cash obligations as of December 31, 2012 and the future periods in which such obligations are expected to be settled in cash (in millions):

**CONTRACTUAL OBLIGATIONS RELATED TO CONTINUING OPERATIONS (a)**

	<b>Total</b>	<b>2013</b>	<b>2014-2015</b>	<b>2016-2017</b>	<b>2018 and thereafter (b)</b>
Notes payable, capital leases and commercial bank financing (c), (d)	\$ 2,954.5	\$ 150.0	\$ 305.0	\$ 1,519.0	\$ 980.5
Notes and capital leases payable to affiliates (c)	33.1	4.2	8.6	7.9	12.4
Operating leases	24.8	4.7	8.3	7.5	4.3
Employment contracts	20.2	11.5	8.2	0.5	
Program content (e)	752.7	191.9	301.4	241.3	18.1
Programming services (f)	93.6	40.1	26.0	19.2	8.3
Maintenance and support	9.2	2.4	3.4	3.4	
Other operating contracts	10.0	0.7	1.3	1.4	6.6
LMA and outsourcing agreements (g)	0.2	0.1	0.1		
Investments and loan commitments (h)	8.9	8.9			
<b>Total contractual cash obligations</b>	<b>\$ 3,907.2</b>	<b>\$ 414.5</b>	<b>\$ 662.3</b>	<b>\$ 1,800.2</b>	<b>\$ 1,030.2</b>

Table of Contents

---

- (a) Excluded from this table are \$26.0 million of accrued unrecognized tax benefits. Due to inherent uncertainty, we can not make reasonable estimates of the amount and period payments will be made.
- (b) Includes a one-year estimate of \$8.3 million in payments related to contracts that automatically renew. We have not calculated potential payments for years after 2018.
- (c) Includes interest on fixed rate debt and capital leases. Estimated interest on our recourse variable rate debt has been excluded. Recourse variable rate debt represents \$899.5 million of our \$2.3 billion total face value of debt as of December 31, 2012.
- (d) During 2012, we drew \$530.0 million of incremental term loans to fund the asset acquisitions of both the Four Points and Freedom stations. Additionally, we issued a private offering of \$500.0 million of 6.125% Senior Unsecured Notes to fund the asset acquisition of the Newport stations and other acquisitions. As of December 31, 2012, we drew \$48.0 million on our revolver. Included in these amounts is debt borrowed by Deerfield which is guaranteed by SBG and totals \$20.0 million as of December 31, 2012.
- (e) Our Program content includes contractual amounts owed through the expiration date of the underlying agreement for active and future program contracts, network programming and additional advertising inventory in various dayparts. Active program contracts are included in the balance sheet as an asset and liability while future program contracts are excluded until the cost is known, the program is available for its first showing or telecast and the licensee has accepted the program. Industry protocol typically enables us to make payments for program contracts on a three-month lag, which differs from the contractual timing within the table. Network programming agreements may include variable fee components such as subscriber levels, which in certain circumstances have been estimated and reflected in the table.
- (f) Includes obligations related to rating service fees, music license fees, market research, weather and news services.
- (g) Excluded from the table are estimated amounts due pursuant to LMAs and outsourcing agreements where we consolidate the counterparty. The fees that we are required to pay under these agreements total \$5.8 million, \$11.5 million, \$3.5 million and \$1.6 million for the periods 2013, 2014-2015, 2016-2017 and 2018 and thereafter, respectively. Certain station related operating expenses are paid by the licensee and reimbursed by us under the LMA agreements. Certain of these expenses that are in connection with contracts are included in table above.
- (h) Commitments to contribute capital or provide loans to Allegiance Capital, LP, Sterling Ventures Partners, LP and Patriot Capital II, LP.

*Off Balance Sheet Arrangements*

## Edgar Filing: SINCLAIR BROADCAST GROUP INC - Form 10-K

Off balance sheet arrangements as defined by the SEC means any transaction, agreement or other contractual arrangement to which an entity unconsolidated with the registrant is a party, under which the registrant has: obligations under certain guarantees or contracts; retained or contingent interest in assets transferred to an unconsolidated entity or similar arrangements; obligations under certain derivative arrangements; and obligations arising out of a material variable interest in an unconsolidated entity. As of December 31, 2012, we do not have any material off balance sheet arrangements.

Table of Contents

**ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

We are exposed to market risk from changes in interest rates. At times we enter into derivative instruments primarily for the purpose of reducing the impact of changing interest rates on our floating rate debt and to reduce the impact of changing fair market values on our fixed rate debt. See *Note 6. Notes Payable and Commercial Bank Financing*, in the Notes to our Consolidated Financial Statements. As of December 31, 2012, we did not have any outstanding derivative instruments.

In January 2012, we drew \$180.0 million of the incremental Term Loan B under our Bank Credit Agreement to fund the asset acquisition of Four Points, which closed January 1, 2012. In addition, in April 2012, we drew \$157.5 million of the incremental Term Loan A and \$192.5 million of the incremental Term Loan B under our Bank Credit Agreement to fund the asset acquisition of Freedom, which closed April 1, 2012. As of December 31, 2012, we had \$48.0 million drawn on our revolver.

On September 20, 2012, we entered into an amendment of our Bank Credit Agreement. Under the Amendment, we increased our incremental term loan capacity from \$300.0 million to \$500.0 million. Also under the Amendment, the level of permitted unsecured indebtedness increased from \$450.0 million to \$850.0 million, subject to certain limitations, and we increased our ratio of our First Lien Indebtedness from 3.25 times EBITDA to 3.75 times EBITDA through December 31, 2014 with a decrease to 3.50 times EBITDA through maturity of the agreement. Other amended terms provided us with increased television station acquisition capacity, more flexibility under the other restrictive covenants and prepayments of the existing term loans. There were no changes pertaining to interest rates or maturities of the outstanding debt or commitments under the Bank Credit Agreement.

We are exposed to risk from a change in interest rates to the extent we are required to refinance existing fixed rate indebtedness at rates higher than those prevailing at the time the existing indebtedness was incurred. The carrying value and fair value of the 4.875% Notes, 3.0% Notes, 6.125% Notes, 8.375% Notes and 9.25% Notes combined was \$1,236.5 million and \$1,362.6 million, respectively, as of December 31, 2012. We estimate that adding 1.0% to prevailing interest rates would result in a decrease in fair value of these notes by \$70.7 million as of December 31, 2012. Generally, the fair market value of these notes will decrease as interest rates rise and increase as interest rates fall. We are also exposed to risk from the changing interest rates of our variable rate debt, primarily related to our Bank Credit Agreement. For the year ended December 31, 2012, cash interest expense on our term loans and revolver related to our Bank Credit Agreement was \$27.9 million. We estimate that adding 1.0% to respective interest rates would result in an increase in our interest expense of \$7.5 million for the year ended December 31, 2012. We also have variable rate debt associated with our other operating divisions. We estimate that adding 1.0% to respective interest rates would result in \$0.6 million of additional interest expense for the year ended December 31, 2012.

Under certain circumstances, we have contingent cash interest features related to the 3.0% Notes and the 4.875% Notes. The contingent cash interest feature for both issuances were embedded derivatives which have negligible fair values.

**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

The financial statements and supplementary data required by this item are filed as exhibits to this report, are listed under Item 15(a)(1) and (2) and are incorporated by reference in this report.



**ITEM 9.  
DISCLOSURE**

**CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL**

There were no changes in and/or disagreements with accountants on accounting and financial disclosure during the year ended December 31, 2012.

**ITEM 9A.**

**CONTROLS AND PROCEDURES**

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

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

The term disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means

Table of Contents

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

The term internal control over financial reporting, as defined in Rules 13a-15d-15(f) under the Exchange Act, means a process designed by, or under the supervision of our Chief Executive and Chief Financial Officers and effected by our Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles (GAAP) and includes those policies and procedures that:

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

***Assessment of Effectiveness of Disclosure Controls and Procedures***

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

***Report of Management on Internal Control over Financial Reporting***

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we assessed the effectiveness of our internal control over financial reporting as of December 31, 2012 based on the criteria set forth in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on our assessment, management has concluded that, as of December 31, 2012, our internal control over financial reporting was effective based on those criteria.

## Edgar Filing: SINCLAIR BROADCAST GROUP INC - Form 10-K

Management has excluded the operations of the fourth quarter acquisitions including WKRC-TV, WOAI-TV, WHP-TV, WPMI-TV, WJTC-TV, KSAS-TV, WHAM-TV, WLYH-TV, KMTW-TV, KBTW-TV, WRSP-TV, WCCU-TV and WBUI-TV, from its assessment of internal control over financial reporting as of December 31, 2012. These assets acquired represent \$514.8 million of total assets as of December 31, 2012 and \$12.3 million of total revenues for the year ended December 31, 2012.

The effectiveness of our internal control over financial reporting as of December 31, 2012 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which is included herein.

### *Changes in Internal Control over Financial Reporting*

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

### *Limitations on the Effectiveness of Controls*

Management, including our Chief Executive Officer and Chief Financial Officer, do not expect that our disclosure controls and procedures or our internal control over financial reporting will prevent all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute

Table of Contents

assurance that all control issues and instances of fraud, if any, within our company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management's override of the control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

**ITEM 9B. OTHER INFORMATION**

None.

Table of Contents

**PART III**

**ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

The information required by this Item will be included in our Proxy Statement for the 2013 Annual Meeting of shareholders under the captions, Directors, Executive Officers and Key Employees, Section 16(A) Beneficial Ownership Reporting Compliance, Code of business Conduct and Ethics and Corporate Governance, which will be filed with the SEC no later than 120 days after the close of the fiscal year ended December 31, 2012 and is incorporated by reference in this report.

**ITEM 11. EXECUTIVE COMPENSATION**

The information required by this Item will be included in our Proxy Statement for the 2013 Annual Meeting of shareholders under the captions, Compensation Discussion and Analysis, Director Compensation for 2012, Compensation Committee Interlocks and Insider Participation and Compensation Committee Report, which will be filed with the SEC no later than 120 days after the close of the fiscal year ended December 31, 2012 and is incorporated by reference in this report.

**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

The information required by this Item will be included in our Proxy Statement for the 2013 Annual Meeting of shareholders under the caption, Security Ownership Of Certain Beneficial Owners and Management, which will be filed with the SEC no later than 120 days after the close of the fiscal year ended December 31, 2012 and is incorporated by reference in this report.

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

The information required by this Item will be included in our Proxy Statement for the 2013 Annual Meeting of shareholders under the captions, Related Person Transactions and Director Independence, which will be filed with the SEC no later than 120 days after the close of the fiscal year ended December 31, 2012 and is incorporated by reference in this report.

**ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES**

## Edgar Filing: SINCLAIR BROADCAST GROUP INC - Form 10-K

The information required by this Item will be included in our Proxy Statement for the 2013 Annual Meeting of shareholders under the caption, Disclosure of Fees Charged by Independent Registered Public Accounting Firm, which will be filed with the SEC no later than 120 days after the close of the fiscal year ended December 31, 2012 and is incorporated by reference in this report.

Table of Contents

**PART IV**

**ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES**

(a) (1) Financial Statements

The following financial statements required by this item are submitted in a separate section beginning on page F-1 of this report.

<b>Sinclair Broadcast Group, Inc. Financial Statements:</b>	<b>Page:</b>
<u>Report of Independent Registered Public Accounting Firm</u>	F-2
<u>Consolidated Balance Sheets as of December 31, 2012 and 2011</u>	F-3
<u>Consolidated Statements of Operations for the Years Ended December 31, 2012, 2011 and 2010</u>	F-4
<u>Consolidated Statements of Comprehensive Income (Loss) for the Years Ended December 31, 2012, 2011 and 2010</u>	F-5
<u>Consolidated Statements of Equity (Deficit) for the Years Ended December 31, 2012, 2011 and 2010</u>	F-6
<u>Consolidated Statements of Cash Flows for the Years Ended December 31, 2012, 2011 and 2010</u>	F-9
<u>Notes to Consolidated Financial Statements</u>	F-10

(a) (2) Financial Statements Schedules

All schedules are omitted because they are not applicable or the required information is shown in the Financial Statements or the accompanying notes.

(a) (3) Exhibits

The following exhibits are filed with this report:

<b>EXHIBIT NO.</b>	<b>EXHIBIT DESCRIPTION</b>
3.1	Amended and Restated Certificate of Incorporation. (Incorporated by reference from Registrant's Report on Form 10-Q for the quarter ended June 30, 1998).
3.2	Amended By-Laws of Sinclair Broadcast Group, Inc. as further amended by the Second Amendment to the Amended By-Laws of Sinclair Broadcast Group, Inc., dated March 3, 2009. (Incorporated by reference from Registrant's Report on Form 8-K filed March 6, 2009).
4.1	Indenture, dated as of May 20, 2003, between Sinclair Broadcast Group, Inc. and Wachovia Bank, National Association. (Incorporated by reference from Registrant's Registration Statement on Form S-4 (333-107522) filed on July 31, 2003).
4.2	Senior Indenture, dated as of May 10, 2007, between Sinclair Broadcast Group, Inc. and U.S. Bank National Association, as trustee. (Incorporated by reference from Registrant's Report on Form 8-K filed on May 11, 2007).

## Edgar Filing: SINCLAIR BROADCAST GROUP INC - Form 10-K

- 4.3 First Supplemental Indenture, dated as of May 10, 2007, between Sinclair Broadcast Group, Inc. and U.S. Bank National Association, as trustee. (Incorporated by reference from Registrant's Report on Form 8-K filed on May 11, 2007).
- 4.4 Indenture, dated as of October 29, 2009, among Sinclair Television Group, Inc., the guarantors named therein and U.S. Bank National Association, as trustee and collateral agent. (Incorporated by reference from Registrant's Report on Form 8-K filed on October 29, 2009).
- 4.5 Indenture, dated as of October 4, 2010, by and among Sinclair Television Group, Inc., the guarantors identified therein and U.S. Bank National Association, as trustee. (Incorporated by reference from Registrant's Report on Form 8-K filed on October 6, 2010).
- 4.6 Indenture, dated as of October 12, 2012, by and among Sinclair Television Group, Inc., the guarantors identified therein and U.S. Bank National Association, as trustee. (Incorporated by reference from Registrant's Report on Form 8-K filed on October 17, 2012).
- 4.7 Registration Rights Agreement, dated as of October 12, 2012, by and among Sinclair Television Group, Inc., the guarantors identified therein and Wells Fargo Securities LLC as representative for Deutsche Bank Securities Inc., J.P. Morgan Securities, LLC, Barclays Capital Inc., RBC Capital Markets, LLC and SunTrust Robinson Humphrey, Inc. (Incorporated by reference from Registrant's Report on Form 8-K filed on October 17, 2012).
- 10.1 Common Non-Voting Capital Stock Option between Sinclair Broadcast Group, Inc. and William Richard Schmidt, as trustee. (Incorporated by reference from Registrant's Registration Statement on Form S-1 No.33-90682).



Table of Contents

10.2	Common Non-Voting Capital Stock Option between Sinclair Broadcast Group, Inc. and C. Victoria Woodward, as trustee. (Incorporated by reference from Registrant's Registration Statement on Form S-1 No. 33-90682).
10.3	Common Non-Voting Capital Stock Option between Sinclair Broadcast Group, Inc. and Dyson Ehrhardt, as trustee. (Incorporated by reference from Registrant's Registration Statement on Form S-1 No. 33-90682).
10.4	Common Non-Voting Capital Stock Option between Sinclair Broadcast Group, Inc. and Mark Knobloch, as trustee. (Incorporated by reference from Registrant's Registration Statement on Form S-1 No. 33-90682).
10.5*	First Amendment to Incentive Stock Option Plan for Sinclair Broadcast Group, Inc., adopted April 10, 1996. (Incorporated by reference from Registrant's Report on Form 10-K/A for the year ended December 31, 1996).
10.6*	Second Amendment to Incentive Stock Option Plan for Sinclair Broadcast Group, Inc., adopted May 31, 1996. (Incorporated by reference from Registrant's Report on Form 10-K/A for the year ended December 31, 1996).
10.7*	1996 Long-Term Incentive Plan for Sinclair Broadcast Group, Inc. (Incorporated by reference from Registrant's Report on Form 10-K/A for the year ended December 31, 1996).
10.8*	First Amendment to 1996 Long-Term Incentive Plan for Sinclair Broadcast Group, Inc. (Incorporated by reference from Registrant's Proxy Statement on Schedule 14A for the year ended December 31, 1998).
10.9*	Employment Agreement by and between Sinclair Broadcast Group, Inc. and Frederick G. Smith, dated June 12, 1998. (Incorporated by reference from Registrant's Report on Form 10-Q for the quarter ended September 30, 1998).
10.10*	Employment Agreement by and between Sinclair Broadcast Group, Inc. and J. Duncan Smith, dated June 12, 1998. (Incorporated by reference from Registrant's Report on Form 10-Q for the quarter ended September 30, 1998).
10.11*	Employment Agreement by and between Sinclair Broadcast Group, Inc. and Lucy Rutishauser dated March 19, 2001. (Incorporated by reference from Registrant's Report on Form 10-K/A filed on April 29, 2005).
10.12	Amendment No. 2, dated as of July 1, 2005 and effective July 1, 2005, by and between Cunningham Communications, Inc. ( Lessor ) and Sinclair Communications, LLC, as successor by merger of Chesapeake Television, Inc. ( Lessee ) to the Lease Agreement (the Agreement ) between Lessor and Lessee, effective as of July 1, 1987, as amended July 1, 1997. (Incorporated by reference from Registrant's Report on Form 8-K filed on July 1, 2005).
10.13*	Form of Restricted Stock Award Agreement. (Incorporated by reference from Registrant's Report on Form 10-Q for the quarter ended June 30, 2006).
10.14*	Stock Appreciation Right Agreement between Sinclair Broadcast Group, Inc. and David D. Smith dated April 2, 2007. (Incorporated by reference from Registrant's Report on Form 10-Q for the quarter ended March 31, 2007).
10.15	Agreement of Lease dated as of March 28, 2008 by and between Beaver Dam Limited Liability Company and Sinclair Broadcast Group, Inc. (Incorporated by reference from Registrant's Report on Form 8-K filed on April 3, 2008).
10.16	Fourth Amended and Restated Credit Agreement, dated as of October 29, 2009, by and among Sinclair Television Group, Inc., JP Morgan Chase Bank, N.A and the lenders party thereto. (Incorporated by reference from Registrant's Report on Form 10-Q for the quarter ended September 30, 2009).
10.17	Amended and restated lease dated as of February 8, 2010 between Gerstell Development Limited Partnership and Sinclair Media I, Inc. (Incorporated by reference from Registrant's Report on Form 10-K for the year ended December 31, 2009).
10.18	Amended and restated lease dated as of February 8, 2010 between Cunningham Communications, Inc. and Sinclair Communications, LLC. (Incorporated by reference from Registrant's Report on Form 10-K for the year ended December 31, 2009).
10.19	Amended and restated lease dated as of February 8, 2010 between Keyser Investment Group, Inc. and Sinclair Communications, LLC. (Incorporated by

Edgar Filing: SINCLAIR BROADCAST GROUP INC - Form 10-K

- reference from Registrant's Report on Form 10-K for the year ended December 31, 2009).
- 10.20 Amended and restated lease dated as of February 8, 2010 between Keyser Investment Group, Inc. and Sinclair Communications, LLC. (Incorporated by reference from Registrant's Report on Form 10-K for the year ended December 31, 2009).
- 10.21 Amendment No. 1 to the Fourth Amended and Restated Credit Agreement, dated August 19, 2010, by and among Sinclair Television Group, Inc., the guarantors party thereto, JP Morgan Chase Bank, N.A as administrative agent, and the lenders party thereto. (Incorporated by reference from Registrant's Report on Form 10-Q for the quarter ended September 30, 2010).
- 10.22 Second Amendment to the Fourth Amended and Restated Credit Agreement, dated as of March 15, 2011, by

## Edgar Filing: SINCLAIR BROADCAST GROUP INC - Form 10-K

### Table of Contents

	and among Sinclair Television Group, Inc., JP Morgan Chase Bank, N.A and the lenders party thereto. (Incorporated by reference from Registrant's Report on Form 8-K filed on March 16, 2011).
10.23*	Stock Appreciation Right Agreement, between Sinclair Broadcast Group, Inc. and David D. Smith dated March 22, 2011. (Incorporated by reference from Registrant's Report on Form 10-K for the year ended December 31, 2010).
10.24	Asset Purchase Agreement dated September 8, 2011 between Four Points Media Group LLC and Sinclair Television Group, Inc. (Incorporated by reference from Registrant's Report on Form 10-Q for the quarter ended September 30, 2011).
10.25	Asset Purchase Agreement dated November 1, 2011, between Freedom Communications Holdings, Inc. and Sinclair Television Group, Inc. (Incorporated by reference from Registrant's Report on Form 10-K for the year ended December 31, 2011).
10.26*	Amended and Restated Employment Agreement by and between Sinclair Broadcast Group, Inc. and David B. Amy, dated November 11, 2011. (Incorporated by reference from Registrant's Report on Form 10-K for the year ended December 31, 2011).
10.27*	Amended and Restated Employment Agreement by and between Sinclair Broadcast Group, Inc. and Barry M. Faber, dated November 11, 2011. (Incorporated by reference from Registrant's Report on Form 10-K for the year ended December 31, 2011).
10.28*	Amended and Restated Employment Agreement by and between Sinclair Broadcast Group, Inc. and Steven M. Marks, dated November 14, 2011. (Incorporated by reference from Registrant's Report on Form 10-K for the year ended December 31, 2011).
10.29	Third Amendment to the Fourth Amended and Restated Credit Agreement, dated as of December 16, 2011, by and among Sinclair Television Group, Inc., JP Morgan Chase Bank, N.A. and the lenders party thereto. (Incorporated by reference from Registrant's Report on Form 8-K filed on December 19, 2011).
10.30*	Stock Appreciation Right Agreement, between Sinclair Broadcast Group, Inc. and David D. Smith dated March 9, 2012. (Incorporated by reference from Registrant's Report on Form 10-Q for the quarter ended March 31, 2012)
10.31	Option Agreement dated May 14, 2012 between Sinclair Broadcast Group, Inc. and Fox Television Stations, Inc. (Incorporated by reference from Registrant's Report on Form 10-Q for the quarter ended June 30, 2012).
10.32	Asset Purchase Agreement dated July 19, 2012 between Newport Television LLC, Newport Television License LLC and Sinclair Television Group. (Incorporated by reference from Registrant's Report on Form 10-Q for the quarter ended June 30, 2012.)
10.33	Fourth Amendment to the Fourth Amended and Restated Credit Agreement dated as of September 20, 2012, by and among Sinclair Television Group, Inc., the guarantors party thereto, JP Morgan Chase Bank, N.A., as administrative agent, and the lenders party thereto. (Incorporated by reference from Registrant's Report on Form 8-K filed on September 26, 2012).
10.34	Amended and restated lease dated January 1, 2013 between Keyser Investment Group, Inc. and Sinclair Communications LLC.
10.35*	Stock Appreciation Right Agreement, between Sinclair Broadcast Group, Inc. and David D. Smith dated February 5, 2013.
12	Computation of Ratio of Earnings to Fixed Charges.
21	Subsidiaries of the Registrant.
23	Consent of PricewaterhouseCoopers LLP Independent Registered Public Accounting Firm.
24	Power of Attorney; included above registrants signatures of this Form 10-K.
31.1	Certification by David D. Smith, as Chief Executive Officer of Sinclair Broadcast Group, Inc., pursuant to § 302 of the Sarbanes-Oxley Act of 2002 (15 U.S.C. § 7241).
31.2	Certification by David B. Amy, as Chief Financial Officer of Sinclair Broadcast Group, Inc., pursuant to § 302 of the Sarbanes-Oxley Act of 2002 (15 U.S.C. § 7241).
32.1	Certification by David D. Smith, as Chief Executive Officer of Sinclair Broadcast Group, Inc., pursuant to § 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. § 1350).
32.2	Certification by David B. Amy, as Chief Financial Officer of Sinclair Broadcast Group, Inc., pursuant to § 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. § 1350).
99	Stockholders' Agreement dated April 19, 2005 by and among the Smith Brothers. (Incorporated by reference from Registrant's Report on Form 8-K filed on April 26, 2005).
101.INS**	XBRL Instance Document
101.SCH**	XBRL Taxonomy Extension Schema
101.CAL**	XBRL Taxonomy Extension Calculation Linkbase
101.LAB**	XBRL Taxonomy Extension Label Linkbase
101.PRE**	XBRL Taxonomy Extension Presentation Linkbase
101.DEF**	XBRL Taxonomy Extension Definition Linkbase



Table of Contents

---

\* Management contracts and compensatory plans or arrangements required to be filed as an exhibit pursuant to Item 15(b) of Form 10-K.

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

(b) Exhibits

The exhibits required by this Item are listed under Item 15 (a) (3).

Table of Contents

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report on Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized on this 12th day of March 2013.

SINCLAIR BROADCAST GROUP, INC.

By: /s/ David D. Smith  
David D. Smith  
Chief Executive Officer

**POWER OF ATTORNEY**

**KNOW ALL MEN BY THESE PRESENTS**, that each person whose signature appears below under the heading *Signature* constitutes and appoints David B. Amy as his true and lawful attorney-in-fact each acting alone, with full power of substitution and resubstitution, for him and in his name, place and stead in any and all capacities to sign any or all amendments to this 10-K and to file the same, with all exhibits thereto, and other documents in connection therewith, with the SEC, granting unto said attorney-in-fact full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully for all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorney-in-fact, or their substitutes, each acting alone, may lawfully do or cause to be done in virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ David D. Smith David D. Smith	Chairman of the Board, President and Chief Executive Officer	March 12, 2013
/s/ David B. Amy David B. Amy	Executive Vice President and Chief Financial Officer	March 12, 2013
/s/ David R. Bochenek David R. Bochenek	Vice President and Chief Accounting Officer	March 12, 2013
/s/ Frederick G. Smith Frederick G. Smith	Director	March 12, 2013
/s/ J. Duncan Smith J. Duncan Smith	Director	March 12, 2013
/s/ Robert E. Smith Robert E. Smith	Director	March 12, 2013

Edgar Filing: SINCLAIR BROADCAST GROUP INC - Form 10-K

/s/ Basil A. Thomas Basil A. Thomas	Director	March 12, 2013
/s/ Lawrence E. McCanna Lawrence E. McCanna	Director	March 12, 2013
/s/ Daniel C. Keith Daniel C. Keith	Director	March 12, 2013
/s/ Martin R. Leader Martin R. Leader	Director	March 12, 2013

Table of Contents

**SINCLAIR BROADCAST GROUP, INC.**

**INDEX TO FINANCIAL STATEMENTS**

	<b>Page</b>
<u>Report of Independent Registered Public Accounting Firm</u>	F-2
<u>Consolidated Balance Sheets as of December 31, 2012 and 2011</u>	F-3
<u>Consolidated Statements of Operations for the Years Ended December 31, 2012, 2011 and 2010</u>	F-4
<u>Consolidated Statements of Comprehensive Income for the Years Ended December 31, 2012, 2011 and 2010</u>	F-5
<u>Consolidated Statements of Equity (Deficit) for the Years Ended December 31, 2012, 2011 and 2010</u>	F-6
<u>Consolidated Statements of Cash Flows for the Years Ended December 31, 2012, 2011 and 2010</u>	F-9
<u>Notes to Consolidated Financial Statements</u>	F-10



Table of Contents

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Shareholders of Sinclair Broadcast Group, Inc.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, of equity (deficit), of comprehensive income, and of cash flows present fairly, in all material respects, the financial position of Sinclair Broadcast Group, Inc. and its subsidiaries (the Company) at December 31, 2012 and December 31, 2011, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2012 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the Report of Management on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As described in the Report of Management on Internal Control over Financial Reporting appearing under Item 9A, management has excluded the operations of WKRC-TV, WOAI-TV, WHP-TV, WPMI-TV, WJTC-TV, KSAS-TV, WHAM-TV, WLYH-TV, KMTW-TV, KBTW-TV, WRSP-TV, WCCU-TV and WBUI-TV from its assessment of internal control over financial reporting as of December 31, 2012 because these television stations were acquired by the Company in a purchase business combination during the fourth quarter of 2012. We have also excluded WKRC-TV, WOAI-TV, WHP-TV, WPMI-TV, WJTC-TV, KSAS-TV, WHAM-TV, WLYH-TV, KMTW-TV, KBTW-TV, WRSP-TV, WCCU-TV and WBUI-TV from our audit of internal control over financial reporting. These assets acquired represent \$514.8 million of total assets as of December 31, 2012 and \$12.3 million of total revenues for the year ended December 31, 2012.

/s/ PricewaterhouseCoopers LLP  
Baltimore, Maryland  
March 12, 2013

F-2

---

Table of Contents**SINCLAIR BROADCAST GROUP, INC.****CONSOLIDATED BALANCE SHEETS****(In thousands, except share and per share data)**

	As of December 31,	
	2012	2011
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 22,865	\$ 12,967
Accounts receivable, net of allowance for doubtful accounts of \$3,091 and \$3,008, respectively	183,480	132,915
Affiliate receivable	416	252
Income taxes receivable		225
Current portion of program contract costs	56,581	38,906
Prepaid expenses and other current assets	7,404	17,274
Assets held for sale	30,357	
Deferred barter costs	3,345	2,238
Deferred tax assets		4,940
Total current assets	304,448	209,717
PROGRAM CONTRACT COSTS, less current portion	12,767	15,584
PROPERTY AND EQUIPMENT, net	439,713	281,521
RESTRICTED CASH	225	58,726
GOODWILL	1,074,032	660,117
BROADCAST LICENSES	85,122	47,002
DEFINITE-LIVED INTANGIBLE ASSETS, net	623,406	175,341
OTHER ASSETS	189,984	123,409
Total assets (a)	\$ 2,729,697	\$ 1,571,417
<b>LIABILITIES AND EQUITY (DEFICIT)</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 10,086	\$ 8,872
Accrued liabilities	143,731	79,698
Income taxes payable	9,939	
Current portion of notes payable, capital leases and commercial bank financing	47,622	38,195
Current portion of notes payable and capital leases payable to affiliates	1,704	3,014
Current portion of program contracts payable	88,015	63,825
Liabilities held for sale	2,397	
Deferred barter revenues	3,499	1,978
Deferred tax liabilities	607	
Total current liabilities	307,600	195,582
<b>LONG-TERM LIABILITIES:</b>		
Notes payable, capital leases and commercial bank financing, less current portion	2,210,866	1,148,271
Notes payable and capital leases to affiliates, less current portion	13,187	16,545
Program contracts payable, less current portion	16,341	27,625
Deferred tax liabilities	233,465	247,552
Other long-term liabilities	48,291	47,204
Total liabilities (a)	2,829,750	1,682,779
<b>COMMITMENTS AND CONTINGENCIES (See Note 10)</b>		
<b>EQUITY (DEFICIT):</b>		
<b>SINCLAIR BROADCAST GROUP SHAREHOLDERS EQUITY (DEFICIT):</b>		

Edgar Filing: SINCLAIR BROADCAST GROUP INC - Form 10-K

Class A Common Stock, \$.01 par value, 500,000,000 shares authorized, 52,332,012 and 52,022,086 shares issued and outstanding, respectively	523	520
Class B Common Stock, \$.01 par value, 140,000,000 shares authorized, 28,933,859 and 28,933,859 shares issued and outstanding, respectively, convertible into Class A Common Stock	289	289
Additional paid-in capital	600,928	617,375
Accumulated deficit	(713,697)	(734,511)
Accumulated other comprehensive loss	(4,993)	(4,848)
Total Sinclair Broadcast Group shareholders' deficit	(116,950)	(121,175)
Noncontrolling interests	16,897	9,813
Total deficit	(100,053)	(111,362)
Total liabilities and equity (deficit)	\$ 2,729,697	\$ 1,571,417

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

---

(a) Our consolidated total assets as of December 31, 2012 and 2011 include total assets of variable interest entities (VIEs) of \$107.9 million and \$33.5 million, respectively, which can only be used to settle the obligations of the VIEs. Our consolidated total liabilities as of December 31, 2012 and 2011 include total liabilities of the VIEs of \$7.9 million and \$14.4 million, respectively, for which the creditors of the VIEs have no recourse to us. See *Note 1. Nature of Operations and Summary of Significant Accounting Policies*.

Table of Contents

## SINCLAIR BROADCAST GROUP, INC.

## CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE YEARS ENDED DECEMBER 31, 2012, 2011 AND 2010

(In thousands, except per share data)

	2012	2011	2010
<b>REVENUES:</b>			
Station broadcast revenues, net of agency commissions	\$ 920,593	\$ 648,002	\$ 655,836
Revenues realized from station barter arrangements	86,905	72,773	75,210
Other operating divisions revenues	54,181	44,513	36,598
Total revenues	1,061,679	765,288	767,644
<b>OPERATING EXPENSES:</b>			
Station production expenses	255,556	178,612	154,133
Station selling, general and administrative expenses	171,279	123,938	127,091
Expenses recognized from station barter arrangements	79,834	65,742	67,083
Amortization of program contract costs and net realizable value adjustments	60,990	52,079	60,862
Other operating divisions expenses	46,179	39,486	30,916
Depreciation of property and equipment	47,073	32,874	36,307
Corporate general and administrative expenses	33,391	28,310	26,800
Amortization of definite-lived intangible and other assets	38,099	18,229	18,834
Impairment of goodwill, intangible and other assets		398	4,803
Total operating expenses	732,401	539,668	526,829
Operating income	329,278	225,620	240,815
<b>OTHER INCOME (EXPENSE):</b>			
Interest expense and amortization of debt discount and deferred financing costs	(128,553)	(106,128)	(116,046)
Loss from extinguishment of debt	(335)	(4,847)	(6,266)
Income (loss) from equity and cost method investments	9,670	3,269	(4,861)
Gain on insurance settlement	47	1,742	344
Other income, net	2,233	1,717	1,865
Total other expense	(116,938)	(104,247)	(124,964)
Income from continuing operations before income taxes	212,340	121,373	115,851
INCOME TAX PROVISION	(67,852)	(44,785)	(40,226)
Income from continuing operations	144,488	76,588	75,625
<b>DISCONTINUED OPERATIONS:</b>			
Income (loss) from discontinued operations, includes income tax provision of \$663, \$477 and \$77, respectively	465	(411)	(577)
NET INCOME	144,953	76,177	75,048
Net (income) loss attributable to the noncontrolling interests	(287)	(379)	1,100
NET INCOME ATTRIBUTABLE TO SINCLAIR BROADCAST GROUP	\$ 144,666	\$ 75,798	\$ 76,148
Dividends declared per share	\$ 1.54	\$ 0.48	\$ 0.43
<b>EARNINGS PER COMMON SHARE ATTRIBUTABLE TO SINCLAIR BROADCAST GROUP:</b>			
Basic earnings per share from continuing operations	\$ 1.78	\$ 0.95	\$ 0.96
Basic earnings per share	\$ 1.79	\$ 0.94	\$ 0.95
Diluted earnings per share from continuing operations	\$ 1.78	\$ 0.95	\$ 0.95

Edgar Filing: SINCLAIR BROADCAST GROUP INC - Form 10-K

Diluted earnings per share	\$	1.78	\$	0.94	\$	0.94
Weighted average common shares outstanding		81,020		80,217		80,245
Weighted average common and common equivalent shares outstanding		81,310		80,532		83,606

AMOUNTS ATTRIBUTABLE TO SINCLAIR BROADCAST

GROUP COMMON SHAREHOLDERS:

Income from continuing operations, net of tax	\$	144,201	\$	76,209	\$	76,725
Income (loss) from discontinued operations, net of tax		465		(411)		(577)
Net income	\$	144,666	\$	75,798	\$	76,148

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

Table of Contents

**SINCLAIR BROADCAST GROUP, INC.**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**FOR THE YEARS ENDED DECEMBER 31, 2012, 2011 AND 2010**

(In thousands)

	2012	2011	2010
Net income	\$ 144,953	\$ 76,177	\$ 75,048
Amortization of net periodic pension benefit costs, net of taxes	(145)	(934)	299
Comprehensive income	144,808	75,243	75,347
Comprehensive (income) loss attributable to the noncontrolling interests	(287)	(379)	1,100
Comprehensive income attributable to Sinclair Broadcast Group	\$ 144,521	\$ 74,864	\$ 76,447

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

Table of Contents

**SINCLAIR BROADCAST GROUP, INC.**  
**CONSOLIDATED STATEMENTS OF EQUITY (DEFICIT)**  
**FOR THE YEARS ENDED DECEMBER 31, 2012, 2011 AND 2010**  
(In thousands)

	Sinclair Broadcast Group Shareholders					Accumulated Deficit	Accumulated Other Comprehensive Loss	Noncontrolling Interests	Total Equity (Deficit)
	Class A Common Stock		Class B Common Stock		Additional Paid-In Capital				
	Shares	Values	Shares	Values					
BALANCE, December 31, 2009	47,375,437	\$ 474	32,453,859	\$ 325	\$ 605,340	\$ (813,876)	\$ (4,213)	\$ 9,728	\$ (202,222)
Dividends declared on Class A and Class B Common Stock						(34,225)			(34,225)
Class A Common Stock issued pursuant to employee benefit plans	538,575	5			4,423				4,428
Class B Common Stock converted into Class A Common Stock	2,370,040	24	(2,370,040)	(24)					
Distributions to noncontrolling interests								(287)	(287)
Tax provision on employee stock awards					(123)				(123)
Change in pension funded status and amortization of net periodic pension benefit costs, net of taxes							299		299
Net income (loss)						76,148		(1,100)	75,048
BALANCE, December 31, 2010	50,284,052	\$ 503	30,083,819	\$ 301	\$ 609,640	\$ (771,953)	\$ (3,914)	\$ 8,341	\$ (157,082)

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



Table of Contents

**SINCLAIR BROADCAST GROUP, INC.**  
**CONSOLIDATED STATEMENTS OF EQUITY (DEFICIT)**  
**FOR THE YEARS ENDED DECEMBER 31, 2012, 2011 AND 2010**  
**(In thousands)**

	Sinclair Broadcast Group Shareholders					Accumulated Deficit	Accumulated Other Comprehensive Loss	Noncontrolling Interests	Total Equity (Deficit)
	Class A Common Stock Shares	Values	Class B Common Stock Shares	Values	Additional Paid-In Capital				
BALANCE, December 31, 2010	50,284,052	\$ 503	30,083,819	\$ 301	\$ 609,640	\$ (771,953)	\$ (3,914)	\$ 8,341	\$ (157,082)
Dividends declared on Class A and Class B Common Stock									