SINCLAIR BROADCAST GROUP INC
Form 10-K/A
May 09, 2003

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K/A

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

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2002

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

FOR THE TRANSITION PERIOD FROM TO .

COMMISSION FILE NUMBER: 000-26076

SINCLAIR BROADCAST GROUP, INC.

(Exact name of Registrant as specified in its charter)

Maryland	**52-1494660**
(State of incorporation)	(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: **None**
Securities registered pursuant to Section 12 (g) of the Act:
Class A common stock, par value $.01 per share
Series D preferred stock, par value $.01 per share

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 ý No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained in this report, 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. ý

Based on the closing sales price of $9.83 per share as of February 14, 2003, the aggregate market value of the voting and non-voting common equity of the Registrant held by non-affiliates was approximately $429.7 million.

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 126-2 of the Act). Yes ý No o

Based on the closing price of $14.56 per share as June 28, 2002, the aggregate market value of the voting and non-voting common equity of the registrant held by non-affiliates was $620.8 million.

As of February 14, 2003, there were 43,887,663 shares of class A common stock, $.01 par value; 41,705,678 shares of class B common stock $.01 par value, and 3,450,000 shares of series D preferred stock, $.01 par value, convertible into 7,561,644 shares of class A common stock at a conversion price of $22.813 per share, of the registrant issued and outstanding.

In addition, 2,000,000 shares of $200 million aggregate liquidation value of 11.625% High Yield Trust Offered Preferred Securities of Sinclair Capital, a subsidiary trust of Sinclair Broadcast Group, Inc., are issued and outstanding.

Documents Incorporated by Reference None

ITEM 1. BUSINESS

We are a diversified television broadcasting company that owns, provides programming and operating services pursuant to local marketing agreements (LMAs) or provides sales services pursuant to outsourcing agreements to more television stations than all but one other commercial broadcasting group in the United States. We currently own, provide programming and operating services pursuant to LMAs or provide sales services to 62 television stations in 39 markets and for purposes of this report, these 62 stations are referred to as "our" stations (or are similarly designated). We currently have duopolies, where we own and operate two stations, in ten markets; own and operate a station and provide programming and operating services to a second station in nine markets; own a station or stations and provide or are provided sales, operational and managerial services to another station in four markets.

We provide free over-the-air programming to television viewing audiences in the communities we serve through our local television stations. The programming that we provide consists of network produced programs, locally and centrally produced news, local sporting events and syndicated programs. We provide network produced programming during the prime time viewing hours in all but two of our markets, which we re-broadcast pursuant to our agreements with the network with which the station is affiliated. We produce local news in 26 of our markets and we provide national news to many of these markets through our centralized news operation. We provide popular local sporting events at many of our stations by acquiring the local television broadcast rights for these events. Additionally, we purchase syndicated programming from third parties to be shown on our television stations. See " ***Operating Strategy***" for more information regarding the programming that we provide.

Our primary source of revenue is the sale of commercial air time on our television stations to our advertising customers. Our objective is to meet the needs of our advertising customers by delivering large audiences in key demographics, primarily the 18 to 49 year old age bracket. 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 our national television advertisers through contracts with national marketing representation firms, who communicate the benefits of advertising in our 39 markets to national advertisers. Our local television advertisers are attracted through the efforts of our local sales force, which encourage local advertisers to purchase airtime on our stations in order to sell their products and services to our viewing audience.

We seek to own multiple television stations in the markets we serve in order to increase revenues and improve margins through increased economies of scale. We have entered into local marketing agreements (LMAs) in nine of our markets where, for a variety of reasons, we do not own the broadcast license related to the second station and in one market in which we do not own a television station. Under LMAs, we provide substantial portions of the broadcast programming for airing on another station in the same market as our station and sell advertising time during such program segments for that station. Our strategy for attracting viewers and advertisers for our LMA television stations is essentially the same as for our owned and operated television stations. In order to further improve our margins, we have entered into outsourcing agreements in four of our markets in which our stations are provided, or provide various non-programming related services such as sales, operational and managerial services to or by other stations. See " ***Operating Strategy***" for more information regarding our LMAs, duopolies and outsourcing agreements.

We have a mid-size market focus and 47 of our 62 stations are located in television designated market areas (DMAs) that rank between the 13th and 75th largest in the United States. Our television station group is diverse in network affiliation with 20 stations affiliated with FOX, 19 with The WB, eight with ABC, six with UPN, four with NBC and three with CBS. Two stations are not affiliated with any network.

We underwent rapid and significant growth from 1991 to 2000, most of which occurred prior to the end of 1999. Since 1991, we have increased the number of television stations we own or provide services to from three television stations to 62 television stations. Prior to September 1999, we also owned, operated and/or programmed up to 52 radio stations in ten markets. We sold all of our interest in radio stations in 1999 and 2000.

In January 1999, we acquired approximately 35% of Acrodyne Communications, Inc. (Acrodyne), a publicly held company that manufactures UHF transmitters for the television industry. Along with this investment, Sinclair hired a team of highly qualified individuals to develop the next generation of UHF digital transmitters. We have assigned the rights to this technology to Acrodyne and they are manufacturing most of our digital transmitters. In January 2003, our ownership interest increased to 82.43% as a result of a restructuring of our investment in Acrodyne in which we forgave indebtedness of Acrodyne to us and invested an additional $1.0 million in Acrodyne.

In November 1999, we acquired an 82.5% equity interest in an entity that is now known as G1440 Holdings, Inc. (G1440) which has since grown to 89.6%. G1440 and its subsidiaries provide single-source, end-to-end e-Business solutions and a number of services and products, including a homebuilder application, an immigration tracking tool application, a syndicated television program management and scheduling application and a procurement application.

We are a Maryland corporation formed in 1986. Our principal offices are located at 10706 Beaver Dam Road, Hunt Valley, MD 21030. Our telephone number is (410) 568-1500 and our website address is www.sbgi.net.

TELEVISION BROADCASTING

Markets and Stations

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	Status(b)	Channel	Affiliation	Number of Commercial Stations in the Market(c)	Station Rank (d)	Digital Broadcast Status(m)	Expiration Date of FCC License
Tampa, Florida	13	WTTA	LMA	38	WB	9	6	D	2/1/05
Minneapolis/St. Paul, Minnesota	14	KMWB	O&O	23	WB	7	6	D	4/1/06
Sacramento, California	19	KOVR	O&O	13	CBS	6	2	D	12/1/06
Pittsburgh, Pennsylvania	21	WPGH	O&O	53	FOX	7	4	D	8/1/07
		WCWB	O&O	22	WB		5	D	8/1/07
St. Louis, Missouri	22	KDNL	O&O	30	ABC	5	5	D	2/1/06
Baltimore, Maryland	24	WBFF	O&O	45	FOX	6	4	D	10/1/04
		WNUV	LMA	54	WB		5	D	10/1/04
Raleigh-Durham, North Carolina	29	WLFL	O&O	22	WB	7	6	D	12/1/04
		WRDC	O&O	28	UPN		5	D	12/1/04
Nashville, Tennessee	30	WZTV	O&O	17	FOX	6	4	D	8/1/05
		WUXP	O&O	30	UPN		5	D	8/1/05
		WNAB	OSA(e)	58	WB		6	D	8/1/05
Milwaukee, Wisconsin	31	WCGV	O&O	24	UPN	7	5	D	12/1/05
		WVTV	O&O	18	WB		6	D	12/1/05
Cincinnati, Ohio	32	WSTR	O&O	64	WB	6	5	D	10/1/05
Kansas City, Missouri	33	KSMO	O&O	62	WB	7	5	D	2/1/06
Columbus, Ohio	34	WSYX	O&O	6	ABC	5	4	D	10/1/05
		WTTE	LMA	28	FOX		3	D	10/1/05
Asheville, North Carolina and Greenville/Spartanburg/ Anderson, South Carolina	35	WBSC	LMA (f)	40	WB	7	6	D	12/1/04
		WLOS	O&O	13	ABC		3	D	12/1/04

Market	Market Rank (a)	Stations	Status(b)	Channel	Affiliation	Number of Commercial Stations in the Market(c)	Station Rank (d)	Digital Broadcast Status(m)	Expiration Date of FCC License
San Antonio, Texas	37	KABB	O&O	29	FOX	7	4	D	8/1/06
		KRRT	O&O	35	WB		5	D	8/1/06
Birmingham, Alabama	40	WTTO	O&O	21	WB	7	5	D	4/1/05
		WABM	O&O	68	UPN		6	D	4/1/05
		WDBB	LMA (g)	17	WB		5	D	4/1/05
Norfolk, Virginia	41	WTVZ	O&O	33	WB	7	6	D	10/1/04
Buffalo, New York	44	WUTV	O&O	29	FOX	6	4	P	6/1/07
		WNYO	O&O	49	WB		5	P	6/1/07
Oklahoma City, Oklahoma	45	KOCB	O&O	34	WB	8	5	D	6/1/06
		KOKH	O&O	25	FOX		4	D	6/1/06
Greensboro/Winston-Salem/	46	WXLV	O&O	45	ABC	7	4	D	12/1/04
Highpoint, North Carolina		WUPN	O&O	48	UPN		6	D	12/1/04
Las Vegas, Nevada	52	KVWB	O&O	21	WB	7	5	D	10/1/06
		KFBT	O&O	33	IND (h)		7	D	10/1/06
Dayton, Ohio	58	WKEF	O&O	22	NBC	6	3	D	10/1/05
		WRGT	LMA	45	FOX		4	D	10/1/05
Richmond, Virginia	59	WRLH	O&O	35	FOX	5	4	D	10/1/04
Charleston and Huntington,	61	WCHS	O&O	8	ABC	5	3	D	10/1/04
West Virginia		WVAH	LMA	11	FOX		4	D	10/1/04
Mobile, Alabama and	62	WEAR	O&O	3	ABC	7	4	D	2/1/05
Pensacola, Florida		WFGX	LMA	35	IND (h)		7	P	2/1/05
Flint/Saginaw/Bay City, Michigan	64	WSMH	O&O	66	FOX	4	4	P	10/1/05
Lexington, Kentucky	65	WDKY	O&O	56	FOX	5	4	D	8/1/05
Des Moines, Iowa	72	KDSM	O&O	17	FOX	5	4	D	2/1/06
Cape Girardeau, Missouri/	75	KBSI	O&O	23	FOX	5	4	D	2/1/06
Paducah, Kentucky		WDKA	LMA	49	WB		5	D	8/1/05
Portland, Maine	76	WGME	O&O	13	CBS	5	2	D	4/1/07
Rochester, New York	77	WUHF	O&O	31	FOX	5	4	P	6/1/07
Syracuse, New York	80	WSYT	O&O	68	FOX	5	4	D	6/1/07
		WNYS	LMA	43	WB		5	P	6/1/07
Springfield/Champaign, Illinois	82	WICS	O&O	20	NBC	6	2	D	12/1/05
		WICD	O&O	15	NBC		2 (i)	D	12/1/05
Madison, Wisconsin	86	WMSN	O&O	47	FOX	5	4	D	12/1/05
Cedar Rapids, Iowa	88	KGAN	O&O(j)	2	CBS	5	3	D	2/1/06
Tri-Cities, Tennessee	90	WEMT	O&O	39	FOX	6	3	D	8/1/05
Charleston, South Carolina	105	WMMP	O&O	36	UPN	5	5	D	12/1/04
		WTAT	LMA	24	FOX		4	D	12/1/04
Springfield, Massachusetts	106	WGGB	O&O	40	ABC	2	2	D	4/1/07
Tallahassee, Florida	107	WTWC	O&O	40	NBC	5	3	D	2/1/05
		WTXL	OSA(k)	27	ABC		2	D	2/1/05
Peoria/Bloomington, Illinois	117	WYZZ	O&O(l)	43	FOX	5	4	D	12/1/05

(a) Rankings are based on the relative size of a station's designated market area (DMA) among the 210 generally recognized DMAs in the United States as estimated by Nielsen as of February 2003.

(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 sales services pursuant to outsourcing agreements.

(c) 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-Sunday, 7:00 a.m. to 1:00 a.m. time period as of February 2003.

(d)

The rank of each station in its market is based upon the February 2003 Nielsen estimates of the percentage of persons tuned to each station in the market from 7:00 a.m. to 1:00 a.m., Monday-Sunday.

(e)

Sinclair has entered into a five-year 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.

(f)

The license assets for this station are currently owned by Cunningham Broadcasting Corporation (formerly Glencairn, Ltd.) or one of its subsidiaries and we intend to acquire these assets upon FCC approval. The FCC denied our application to acquire the license of this station and we have filed a motion for reconsideration of that decision.

(g)

WDBB-TV simulcasts the programming broadcast on WTTO-TV pursuant to a local marketing agreement.

(h)

"IND" or "Independent" refers to a station that is not affiliated with any of ABC, CBS, NBC, Fox, WB, or UPN.

(i)

WICD-TV, a satellite of WICS-TV, under FCC rules, simulcasts all of the programming aired on WICS-TV and the station rank applies to the combined viewership of these stations.

(j)

Sinclair has entered into a five-year outsourcing agreement with an unrelated third party under which the unrelated third party provides certain non-programming related sales, operational and managerial services to KGAN-TV. Sinclair continues to own all of the assets of KGAN-TV and to program and control the station's operations.

(k)

Sinclair has entered into a five-year outsourcing agreement with the unrelated third party owner of WTXL-TV to provide certain non-programming related sales, operational and managerial services for WTXL-TV.

(l)

Sinclair has entered into a seven-year outsourcing agreement with an unrelated third party, under which the unrelated third party provides certain non-programming related sales, operational and managerial services to WYZZ-TV. Sinclair continues to own all of the assets of WYZZ-TV and to program and control the station's operations.

(m)

All stations currently broadcast an analog signal. In addition, many stations broadcast a digital signal. "D" refers to stations that currently broadcast a digital signal. "P" refers to stations which have not commenced digital operations because they are awaiting grant of construction permits from the FCC, or are awaiting delivery of equipment, or are awaiting approval from the FCC to operate at low power.

Operating Strategy

Our operating strategy includes the following elements:

Programming to Attract Viewership. We seek to target our programming offerings to attract viewership, particularly in the 18 to 49 year-old age bracket. 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 sporting events. Moreover, we produce and/or broadcast local news at 31 of our television stations in 26 separate markets. We have recently instituted a project to increase, in a cost-effective manner, local news programming at many of our stations by using a central support operation which provides national and regional news coverage in coordination with local news operations. Our programming strategy on our FOX, WB, UPN and independent stations also includes "counter programming," which consists of broadcasting programs that are alternatives to the types of programs being shown concurrently on competing stations.

Developing Local Franchises. We believe that the greatest opportunity for a sustainable and growing customer base lies within our local communities. We have therefore focused on developing a strong local sales force at each of our television stations. For the year ended December 31, 2002, 57.6% of our time sales, excluding political advertising revenue, were local. Our goal is to continue to grow our share of local revenues.

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 among the highest in the television broadcast industry. We believe our national reach of approximately 24% 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 stations' programming and operating costs through program-specific profit analysis, detailed budgeting, tight control over staffing levels and detailed long-term planning models.

Utilization of Local Marketing Agreements and Duopolies. We have sought to increase our revenues and improve our margins by providing programming services pursuant to an LMA to a second station in selected DMAs where we already own one station or by owning two stations in a single DMA. We believe that we can attain growth in operating cash flow through the utilization of such duopolies.

Duopolies allow us to improve our competitive position with respect to a demographic sector and to realize significant economies of scale in marketing, programming, overhead and capital expenditures. We also believe that these arrangements assist stations whose operations may have been marginally profitable to continue to air popular programming and contribute to diversity of programming in their respective DMAs. As a result of the FCC's revision of its duopoly rules to permit the ownership of up to two television stations in a DMA under certain circumstances, we have acquired several stations that we had been programming pursuant to LMAs. We own duopolies in ten markets and operate a second station pursuant to an LMA in nine markets. We currently are permitted under FCC guidelines to establish new duopolies in the Minneapolis, Tampa, and Sacramento markets, if suitable acquisitions can be identified and negotiated under acceptable terms. In certain markets where we currently program stations pursuant to LMAs, the duopoly rules would prevent us from continuing the LMA. We challenged the application of these rules to our stations in the U.S. Court of Appeals for the D.C. Circuit. The Court held that parts of the television duopoly rule were arbitrary and capricious and remanded the rule to the FCC for further consideration. The FCC has commenced a broad-based rulemaking proceeding to review all the broadcast multiple ownership rules. See "Risk Factors *The FCC's multiple ownership rules limit our ability to operate multiple television stations 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. In addition to our LMAs and duopolies, we have entered into four (and intend to 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. Pursuant to these agreements, our stations currently provide services to other stations in Tallahassee, Florida and Nashville, Tennessee and other parties provide services to our stations in Peoria/Bloomington, Illinois and in Cedar Rapids, Iowa. We believe this structure will allow stations to achieve operational efficiencies and economies of scale, which should otherwise improve broadcast cash flow and competitive positions. We will continue to seek additional opportunities for entering into outsourcing agreements in the future.

Strategic Realignment of Station Portfolio. In anticipation of the possibility of deregulation of the television ownership rules, including changes in the national ownership cap, the duopoly "eight voices test", and newspaper/television cross-ownership rules as well as the recent court decision vacating the cable/television cross-ownership rules, we are re-examining our television station group portfolio. Our objective is to build our local franchises in the markets we deem strategic and to divest or swap our non-strategic stations. In order to achieve our objective and to prepare us for the expected rule changes, we have retained Bear, Stearns & Co. Inc. to review our television station group make-up, advise us on market opportunities which could strengthen our competitive position, make recommendations on markets we should exit, if any, and bring together potential sellers and buyers. In connection with this process, 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 station owners. On July 24, 2002, we completed the sale of the television station WTTV-TV in Bloomington, Indiana and its satellite station, WTTK-TV in Kokomo, Indiana to a third party. We previously entered into an agreement with a third party to purchase certain non-license television broadcast assets of WNAB-TV in Nashville, Tennsessee. We have made a non-refundable deposit against the purchase price of the put or call option on such non-license assets in return for a reduction in the monthly fees we pay pursuant to our outsourcing agreement with the third party owner of WNAB-TV. We are also providing a financial incentive in the form of broadcast cash flow sharing with the third party owner. At this time, we have not otherwise entered into any agreements or understandings with respect to any transaction and there can be no assurance that any transactions will be completed. See "Risk Factors *The FCC's multiple ownership rules limit our ability to operate multiple television stations 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."*

Local News. We believe that the production and broadcasting of local news is an important link to the community and an aid to the 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 carefully assess the anticipated benefits and costs of producing local news prior to introduction at one of 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 provide news programming wherever it is cost effective and seek to make it cost effective through the news central format. We also continuously review the performance of our existing news operations to make sure that they are economically viable. We currently provide local news programming at 31 of the television stations we own and/or program located in 26 separate markets. We

can produce news programming in these markets at relatively low cost per hour of programming and the programming serves the local community by providing additional news outlets in these markets, some of which are broadcast at different times. We have recently instituted a project to increase, in a cost-effective manner, local news programming at many of our stations by using a central support operation which provides national and regional news coverage in coordination with local news operations. In October 2002, we added news programming at our station WSMH-TV in Flint, Michigan and on February 3, 2003, we added an 11:00 p.m. local newscast on our Baltimore station, WBFF-TV, both utilizing the centralized news format.

Popular Sporting Events. Our WB and UPN affiliated and independent stations generally face fewer restrictions on broadcasting live local sporting events than do their competitors that are affiliates of FOX, ABC, NBC and CBS, which are required to broadcast a greater number of hours of programming supplied by the networks. At some of our stations we have been able to acquire the local television broadcast rights for certain sporting events, including NBA basketball, Major League Baseball, NFL football, NHL hockey, ACC basketball, Big Ten football and basketball, and SEC football. We seek to expand our sports broadcasting in DMAs only as profitable opportunities arise. In addition, our stations that are affiliated with FOX, ABC, NBC and CBS broadcast certain Major League Baseball games, NFL football games and NHL hockey games as well as other popular sporting events.

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. A significant portion of the compensation available to group general managers, sales managers and other station managers is based on their exceeding certain operating results. We also provide some of our corporate and station managers with deferred compensation plans offering options to acquire class A common stock.

Community Involvement. Each of our stations actively participates in various community activities and offers many community services. Our activities include broadcasting programming of local interest and sponsorship of community and charitable events. We also encourage our station employees to become active members of their communities and to promote involvement in community and charitable affairs. We believe that active community involvement by our stations provides our stations with increased exposure in their respective DMAs and ultimately increases viewership and advertising support.

Investment Strategy

Internet. Although we have continued to see a dramatic decrease in the value of Internet-related and wireless businesses that began in 2000, we continue to explore opportunities for television broadcasters to work with these businesses to increase their profitability and to use the resources of the Internet and wireless outlets to enhance the offerings and value of our broadcast stations. Currently we hold an 89.6% equity interest in G1440 which is a single-source, end-to-end eBusiness solutions

provider engaged in developing, and providing web-based applications. The accounts of G1440 are included in our consolidated financial statements. G1440 provides a variety of services and products which include a homebuilder application, an immigration tracking tool application, a syndicated television program management and scheduling application, and a procurement application.

In furtherance of our Internet strategy, we routinely review and conduct investigations of potential Internet-related and wireless opportunities. When we believe a favorable opportunity exists, we seek to enter into discussions with the owners of Internet-related and wireless businesses regarding the possibility of an acquisition, equity investment or barter transaction. At any given time, we may be in discussions with one or more parties. We cannot be assured that any of these or other negotiations will lead to definitive agreements or, if agreements were reached, that any transactions would be consummated and completed.

Summa Holdings, Ltd. On December 30, 2002 we invested $20 million in Summa Holdings, Ltd. (Summa) resulting in a 17.5% equity interest. Summa is a holding company which owns automobile dealerships, retail tire franchises and a leasing company. David D. Smith, our President and Chief Executive Officer has a controlling interest in Summa and is on the Board of Directors. We will have significant influence over the operating and financial policies of Summa by holding a board seat (in addition to the board seat held by David D. Smith); therefore we will account for this investment under the equity method of accounting.

ACQUISITIONS AND DISPOSITIONS

LMA Acquisitions. In January 2002 we acquired the licenses and related assets of a number of stations which we had previously been programming pursuant to LMAs. These acquisitions and the prices paid for the licenses and related assets were as follows:

Cunningham/WPTT, Inc. Acquisition

On November 15, 1999, SBG entered into an agreement to purchase substantially all of the assets of television station WCWB-TV, Channel 22, Pittsburgh, Pennsylvania, with the owner of that television station WPTT, Inc. In December 2001, we received FCC approval and on January 7, 2002, we closed on the purchase of the FCC license and related assets of WCWB-TV for a purchase price of $18.8 million.

On November 15, 1999, we entered into five separate plans and agreements of merger, pursuant to which we would acquire through merger with subsidiaries of Cunningham Broadcasting Corporation (Cunningham), (formerly Glencairn, Ltd.), television broadcast stations WABM-TV, Birmingham, Alabama, KRRT-TV, San Antonio, Texas, WVTV-TV, Milwaukee, Wisconsin, WRDC-TV, Raleigh, North Carolina, and WBSC-TV (formerly WFBC-TV), Anderson, South Carolina. The consideration for these mergers was the issuance to Cunningham of shares of Class A common voting stock of Sinclair. The total value of the shares that were issued in consideration for all the mergers was $7.7 million. In December 2001, we received FCC approval on all the transactions except for WBSC-TV (see below). Accordingly, on February 1, 2002, we closed on the purchase of the FCC license and related assets of WABM-TV, KRRT-TV, WVTV-TV and WRDC-TV.

WBSC LMA. The license assets of WBSC-TV Greenville/Spartansburg/Anderson, South Carolina, are currently owned by Cunningham and we intend to acquire these assets upon FCC approval. The FCC recently denied our application to acquire the license for this station based on the "eight voices test" and we have filed a motion for reconsideration of that decision.

Mission Acquisition

Pursuant to our merger with Sullivan Broadcast Holdings, Inc. which was effective July 1, 1998, we acquired options to acquire television broadcast station WUXP-TV in Nashville, Tennessee from

Mission Broadcasting I, Inc. and television broadcast station WUPN-TV in Greensboro, North Carolina from Mission Broadcasting II, Inc. On November 15, 1999, we exercised our options to acquire both of the foregoing stations. In December 2001, we received FCC approval and in January 2002, we closed on the purchase of the FCC licenses and related assets of WUXP-TV and WUPN-TV for the assumption of notes aggregating $4.2 million and $0.1 million of cash. Prior to closing, we programmed these stations pursuant to an LMA.

Sullivan Acquisition

In December 2001, we received FCC approval to acquire 100% of the stock of Sullivan Broadcasting Company II, Inc. and Sullivan Broadcasting Company IV, Inc. which, in the aggregate, owned the FCC license and related assets of six television stations. In January 2002, we completed the purchase of the FCC license and related assets of WZTV-TV, WUTV-TV, WXLV-TV, WRLH-TV, WMSN-TV and KOKH-TV. Prior to closing, we programmed these stations pursuant to LMAs. As consideration for the purchase of the FCC license and related assets of KOKH, we eliminated a note receivable due from Sullivan IV in the amount of principal and interest of $16.6 million.

WUHF Acquisition

On April 30, 2002, we acquired the FCC license and related assets of WUHF-TV in Rochester, New York from BS&L Broadcasting, Inc. (BS&L). As consideration for the purchase of the FCC license and related assets, we forgave a note receivable from BS&L in the amount of $22.0 million. Prior to the completion of the acquisition, we programmed WUHF-TV pursuant to an LMA.

WNYO Acquisition

In August 2000, we entered into an agreement to purchase the stock of Grant Television, the owner of WNYO-TV in Buffalo, New York, for a purchase price of $51.5 million. In October 2000, we completed the stock acquisition of Grant, obtaining the non-license assets of WNYO-TV and began programming the television station under a local marketing agreement. The acquisition was accounted for under the purchase method of accounting whereby the purchase price was allocated to property and programming assets, acquired intangible broadcast assets and other intangible assets for $2.9 million, $3.9 million and $39.8 million, respectively. In December 2001, we received FCC approval and on January 25, 2002, we completed the purchase of the FCC license and related assets of WNYO-TV for a purchase price of $3.2 million in cash and the assumption of a note payable of $3.5 million.

Other

In January 2002, the Rainbow/PUSH Coalition filed with the U.S. Court of Appeals for the D.C. Circuit a Notice of Appeal of the FCC's Memorandum Opinion and Order approving certain of the acquisitions described above. The stations affected by the Notice of Appeal are

WNUV-TV, WTTE-TV, WRGT-TV, WTAT-TV, WVAH-TV, KOKH-TV, KRRT-TV, WVTV-TV, WRDC-TV, WABM-TV, WBSC-TV, WCWB-TV, WLOS-TV and KABB-TV. Oral arguments in this matter are scheduled for the first quarter of 2003.

WTTV Disposition

On April 18, 2002, we entered into an agreement to sell the television station of WTTV-TV in Bloomington, Indiana and its satellite station, WTTK-TV in Kokomo, Indiana (collectively referred to as WTTV-TV) to a third party. On July 24, 2002, WTTV-TV had net assets and liabilities held for sale of $108.8 million, and we completed such sale for $124.5 million and recognized a gain, net of taxes, of $7.5 million, which was used to pay down indebtedness. The operating results of WTTV-TV are not

included in our consolidated results from continuing operations for the years ended December 31, 2002, 2001 and 2000.

FEDERAL REGULATION OF TELEVISION BROADCASTING

The ownership, operation and sale of television stations are subject to the jurisdiction of the FCC, which acts under authority granted by the Communications Act of 1934, as amended ("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 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:

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 to pursuant to LMAs, 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.

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 alien ownership.

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 approximately 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 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 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, under the 1999 ownership rules, LMAs are attributable where a licensee owns a television station and programs a television station in the same market.

The Communications Act prohibits the issuance of broadcast licenses 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 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). 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 over 90% of the common voting rights of Sinclair) are all United States citizens. The amended and restated Articles of Incorporation of Sinclair ("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, Sinclair has the right to repurchase alien-owned shares at their fair market value to the extent necessary, in the judgment of its board of directors, to comply with the alien ownership restrictions.

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.

Broadcast/Daily Newspaper Cross-Ownership Rule. The FCC's rules prohibit the common ownership of a radio or television broadcast station and a daily newspaper in the same market.

Dual Network Rule. The four major television networks, ABC, CBS, NBC and FOX, 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 the UPN and/or The WB television network.

National Ownership Rule. No individual or entity may have an attributable interest in television stations reaching more than 35% of the national television viewing audience. In February 2002, the U.S. Court of Appeals for the D.C. Circuit remanded to the FCC its decision not to alter this rule. Under this rule, which currently remains in effect pending the FCC's review thereof as mandated by the court, 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. Since, historically, VHF stations have shared a larger portion of the market than UHF stations, only half of the households in the market area of any UHF station are included when calculating whether an entity or individual owns television stations reaching more than 35% of the national television viewing audience (commonly referred to as the "UHF discount"). All but eight of the stations owned and operated by us, or to which we provide programming services, are UHF. We reach approximately 24% of U.S. television households or 14% taking into account the FCC's UHF discount.

Local Television (Duopoly) Rule. A party may own two television stations in adjoining markets, even if there is Grade B overlap between the two stations' 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 contains at least eight independently owned full-power television stations (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 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. In April 2002, the D.C. Circuit held that the eight voices test of the duopoly rules was arbitrary and capricious and remanded the rules to the FCC for further consideration.

In September 2002, the FCC commenced a broad-based rulemaking proceeding to review all of its broadcast multiple ownership rules. The FCC has publicly stated that it intends to conclude this proceeding in the spring of 2003.

Antitrust Regulation. The Department of Justice ("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 the ownership or 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 ("HSR") Act, cannot be implemented until the waiting period required by that statute has ended or been terminated.

Expansion of our broadcast operations on both a local and national level will continue to be subject to the FCC's ownership rules and any changes the FCC or Congress may adopt. Concomitantly, any further relaxation of the FCC's ownership rules may increase the level of competition in one or

more of the markets in which our stations are located, more specifically to the extent that any of our competitors may have greater resources and thereby be in a superior position to take advantage of such changes.

Local Marketing Agreements

A number of television stations, including certain of our stations, have entered into what have commonly been referred to as local marketing agreements or LMAs. While these agreements may take varying forms, one typical type of LMA is a programming agreement between two separately owned television stations serving a common service area, whereby the licensee of one station programs substantial portions of the broadcast day and sells advertising time during such program segments on the other licensee's station subject to ultimate editorial and other controls being exercised by the latter licensee. The licensee of the station which is being substantially programmed by another entity must maintain complete responsibility for and control over the programming, financing, personnel and operations of its broadcast station and is responsible for compliance with applicable FCC rules and policies.

In the past, a licensee could own one station and program and provide other services to another station pursuant to an LMA in the same market because LMAs were not considered attributable interests. However, under the duopoly rules adopted in August 1999, LMAs are attributable where a licensee owns a television station and programs more than 15% of the weekly broadcast time of another television station in the same market. The rules provide that LMAs entered into on or after November 5, 1996 had until August 5, 2001 to come into compliance

with the 1999 duopoly rules. LMAs entered into before November 5, 1996 are grandfathered until the conclusion of the FCC's 2004 biennial review. In certain cases, parties with grandfathered LMAs, may be able to rely on the circumstances at the time the LMA was entered into in advancing any proposal for co-ownership of the station. We acquired 15 of the stations we had been programming pursuant to LMA's. We currently program 11 television stations pursuant to LMAs. Of these 11 stations, three of the LMAs are not subject to divestiture because they involve stations which we could own under the 1999 duopoly rules, but either have decided not to acquire at this time or have no right to acquire, four LMAs (including an LMA with a station we have filed an application to acquire) were entered into before November 5, 1996, and four LMAs were entered into on or after November 5, 1996 (although we believe a valid position exists that one of these four LMAs was effectively entered into prior to November 5, 1996). We filed a Petition for Review of the Report and Order adopting the 1999 duopoly rules in the U.S. Court of Appeals for the D.C. Circuit. In June 2001, the U.S. Court of Appeals for the D.C. Circuit granted our motion for stay of the requirement that we divest the four LMAs entered into on or after November 5, 1996 by August 5, 2001, which stay is still pending. In April 2002, the Court held that the eight voices test of the duopoly rules was arbitrary and capricious and remanded the rules to the FCC for further consideration. The FCC has commended a broad based rule making proceeding to review all of its multiple ownership rules. We expect revised rules to be adopted by the FCC in 2003.

In December 2001 the FCC issued a decision which, among other things, granted a number of Sinclair and Cunningham applications and dismissed our application to acquire the license of one of the stations (WBSC-TV) we program pursuant to a pre-November 5, 1996 LMA as not meeting the requirements for ownership under the new duopoly rules. We have filed a motion for reconsideration of the dismissal. In January 2002, the Rainbow/PUSH Coalition filed with the U.S. Court of Appeals for the D.C. Circuit an appeal of the FCC's decision. The stations affected by the Notice of Appeals are WNUV-TV, WTTE-TV, WRGT-TV, WTAT-TV, WVAH-TV, KOKH-TV, KRRT-TV, WVTV-TV, WRDC-TV, WABM-TV, WBSC-TV, WCWB-TV, WLOS-TV and KABB-TV. Oral arguments in this matter are scheduled for the first quarter of 2003. Although we do not expect to lose these licenses as a result of these proceedings, we can provide you no assurance as to the outcome of the appeal.

The Satellite Home Viewer Act ("SHVA")

In 1988, Congress enacted 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 allows satellite carriers 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 it carries 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 agreements granting the two primary satellite carriers retransmission consent to carry all of our stations.

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. By electing the must-carry rights, a broadcaster demands carriage on a specified channel on cable systems within its Designated Market Area, 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. In October 2002, we elected must-carry or retransmission consent with respect to

each of our stations based on our evaluation of the respective markets and the position of our owned or programmed station(s) within the market. Our stations continue to be carried on all pertinent cable systems, and we do not believe that our elections have resulted in the shifting of our stations to less desirable cable channel locations. Many of the agreements we have negotiated for cable carriage are short term, subject to month-to-month extensions.

The FCC recently determined not to apply must-carry rules to require cable companies to carry both the analog and digital signals of local broadcasters during the DTV transition period between 2002 and 2006 when television stations will be broadcasting both signals. As a result of this decision by the FCC, cable customers in our broadcast markets may not receive the station's digital signal.

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 system's local community). The FCC's network non-duplication rules allow local broadcast network television affiliates to require that cable operators black out duplicating 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 market. This is not necessarily in 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. The FCC recently announced that stations need only broadcast on their digital channel during primetime hours and need only cover their community of license during the DTV transition period.

Digital Television

The FCC has taken a number of steps to implement digital television ("DTV") broadcasting services. The FCC has adopted an allotment table that provides all authorized television stations with a second channel on which to broadcast a DTV signal. The FCC has attempted to provide DTV coverage areas that are comparable to stations' existing service areas. The FCC has ruled that television broadcast licensees may use their digital channels for a wide variety of services such as high-definition 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 on all DTV subscription services.

DTV channels are generally located in the range of channels from channel 2 through channel 51. The FCC required that affiliates of ABC, CBS, FOX and NBC in the top 10 television markets begin digital broadcasting by May 1, 1999 and that affiliates of these networks in markets 11 through 30 begin digital broadcasting by November 1999. All other commercial stations were required to begin digital broadcasting by May 1, 2002.

Of the television stations that we own and operate, as of February 24, 2003, five are operating at their full DTV power and thirty-five are operating their DTV facilities at low power as permitted by the FCC pursuant to special temporary authority. Six stations have applications for digital construction permits pending before the FCC, including one of the stations which is operating at low power. Three stations have received extensions of their digital construction permits because equipment deliveries have delayed completion of construction and one station has recently received its DTV permit. Of the Cunningham stations we LMA, four stations are operating their DTV facilities at low power pursuant to special temporary authority, one station has a DTV construction permit that does not expire until November 2003, and one station has a pending DTV application. Of the other LMA stations, WTTA and WDBB are operating at low power pursuant to special temporary authority, WDKA has been granted special temporary authority to operate at low power, WFGX has received an extension of time to construct its digital facility pending FCC action on a petition for rulemaking that it filed requesting a substitute DTV channel, and WNYS has a digital application pending.

On May 24, 2002, the FCC issued an Order and Notice of Proposed Rule Making which proposes a series of graduated sanctions to be imposed upon licensees who do not meet the FCC's DTV build-out schedule. If the rules are adopted, the stations could face monetary fines and possible loss of any digital construction permits that are not in compliance with the schedule announced in the rules. After completion of the transition period, the FCC will reclaim the non-digital channels. The FCC's plan calls for the DTV transition period to end December 31, 2006, at which time the FCC expects that television broadcasters will cease non-digital broadcasting and return one of their two channels to the government, allowing that spectrum to be recovered for other uses. During the transition period, each existing analog television station will be permitted to operate a second station that will broadcast using the digital standard.

The FCC has been authorized by Congress to extend the 2006 deadline for reclamation of a television station's non-digital channel if, in any given case:

one or more television stations affiliated with ABC, CBS, NBC or FOX in a market is not broadcasting digitally, and the FCC determines that each such station has "exercised due diligence" in attempting to convert to digital broadcasting and satisfies the conditions for an extension of the FCC's applicable construction deadlines for DTV service in that market;

digital-to-analog converter technology is not generally available in such market; or

15% or more of the television households in such market do not subscribe to a multichannel video service (cable, wireless cable or direct-to-home broadcast satellite television) that carries at least one digital channel from each of the local stations in that market, and cannot receive digital signals using either a television receiver capable of receiving digital signals or a receiver equipped with a digital-to-analog converter.

On January 27, 2003, the FCC initiated its second periodic review of its rules on the conversion to digital television, releasing a notice of proposed rulemaking. The notice invited comments on the difficulties broadcasters face in building their DTV stations and on the interpretation of the statutory language concerning the 2006 deadline.

Congress directed the FCC to begin auctioning analog channels 60-69 in 2001 even though the FCC is not to reclaim them until 2006. The channel 60-69 auction has been delayed and is currently scheduled to be held in 2003. Congress further permitted broadcasters to bid on the non-digital channels in cities with populations over 400,000. If the channels are owned by our competitors, they may exert increased competitive pressure on our operations. In addition, the FCC released a Report and Order on January 18, 2002, reallocating the 698-746 MHz spectrum band, currently comprising television channels 52-59, to permit both wireless services and certain new broadcast operations. The FCC completed an auction of this spectrum on September 18, 2002. Analog broadcasters are required to cease operation on this spectrum by the end of 2006 unless the FCC extends the end of the digital transition period. The FCC envisions that this band will be used for a variety of wireless and broadcast-type applications including two-way interactive services and services using COFDM technology. We cannot predict how the development of this spectrum will affect Sinclair's television operations.

Implementation of digital television has imposed substantial additional costs on television stations because of the need to replace equipment and because some stations will need to operate at higher utility costs. There can be no assurance that our television stations will be able to increase revenue to offset such costs. In addition the FCC has proposed imposing new public interest requirements on television licensees in exchange for their receipt of DTV channels.

There is considerable uncertainty about the final form of the FCC digital regulations. Even so, we believe that these new developments may have the following effects on us:

Reclamation of analog channels. Congress directed the FCC to begin auctioning analog channels 60-69 in 2001, even though the FCC is not to reclaim them until 2006. The channel 60-69 auction was scheduled to be held in January 2003 but has been delayed, and no new auction date has been established. Congress further permitted broadcasters to bid on the non-digital channels in cities with populations over 400,000. If the channels are owned by our competitors, they may exert increased competitive pressure on our operations. In addition, the FCC reallocated the spectrum band, currently comprising television channels 52-59, to permit both wireless services and certain new broadcast operations. The FCC completed an auction for part of this spectrum in September 2002 and has scheduled an auction for another portion of this spectrum in May 2003. With respect to the remaining spectrum, the FCC has not yet established an auction date. Analog broadcasters are required to cease operation on this spectrum by the end of 2006 unless the FCC extends the end of the digital transition. The FCC envisions that this band will be used for a variety of broadcast-type applications including two-way interactive services and services using COFDM technology. We cannot predict how the development of this spectrum will affect our television operations.

Signal quality issues. Our tests have indicated that the digital standard mandated by the FCC, 8-level vestigial sideband (8-VSB), is currently unable to provide for reliable reception of a DTV signal through a simple indoor antenna. Absent improvements in DTV receivers, or an

FCC ruling allowing us to use an alternative standard, continued reliance on the 8-VSB digital standard may not allow us to provide the same reception coverage with our digital signals as we can with our current analog signals. Futhermore, the FCC generally has made available much higher power allocations to digital stations that will replace stations on existing channels 2 through 13 than digital stations that will replace existing channels 14 through 69. The majority of our analog facilities operate between channels 14 through 69. This power disparity could put us at a disadvantage to our competitors that now operate on channels 2 through 13.

In August 2002, the FCC adopted regulations requiring new television receivers to include over-the-air DTV tuners. In November 2002, we filed a petition for further reconsideration requesting that the FCC ensure that these over-the-air DTV tuners are capable of adequately receiving digital television signals. If DTV tuners are not able to receive digital television signals adequately, we may be forced to rely on cable television or other alternative means of transmission to deliver our digital signals to all of the viewers we are able to reach with our current analog signals.

Digital must carry. While the FCC ruled that cable companies are required to carry the signals of digital-only television stations, the agency has tentatively concluded, subject to additional inquiry in a pending rulemaking proceeding, that cable companies should not be required to carry both the analog and digital signals of stations during the transition period when stations will be broadcasting in both modes. If the FCC does not require this, cable customers in our broadcast markets may not receive our digital signal, which could negatively impact our stations.

Capital and operating costs. We will incur costs to replace equipment in our stations in order to provide digital television. Some of our stations will also incur increased utilities costs as a result of converting to digital operations. We cannot be certain we will be able to increase revenues to offset these additional costs.

Restrictions on Broadcast Advertising

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 certain members of Congress are currently contemplating legislation to place restrictions on the advertisement of such alcoholic beverage products. FCC rules also restrict the amount and type of advertising which can appear in programming broadcast primarily for an audience of children twelve years old and younger.

The Communications Act and FCC rules also place restrictions on the broadcasting of advertisements by legally qualified candidates for elective office. Among other things,

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 of advertisement, length of advertisement, and daypart.

We cannot predict the effect of legislation on our station's advertising revenues. During March 2002, legislation passed in Congress and was signed into law by the President that revised the laws regarding the rates charged by television stations to legally qualified candidates for office and the rules regarding "soft money" advertising and advocacy advertising by labor unions and corporations. Immediately upon passage, a constitutional challenge was filed.

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 new rules 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 the new rules and policies to part-time positions, defined as less than 30 hours per week.

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.

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 required to be placed quarterly in stations' public inspection files and filed quarterly with the FCC.

Additionally, television stations are required to identify and provide information concerning "core" children's programming to publishers of program guides. The FCC is considering whether or not to require the use of the digital broadcast spectrum for the broadcast of additional amounts of "core" children's programming.

Television Program Content. The television industry has developed a ratings system that has been approved by the FCC 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 blocking of rated programming.

Pending Matters

The 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. In addition to the changes and proposed changes noted above, such matters may include, for example, the license renewal process, spectrum use fees, political advertising rates, potential restrictions on the advertising of certain products (beer, wine

and hard liquor, for example), and the rules and policies with respect to equal employment opportunity.

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 the advent of telephone company participation in the provision of video programming service.

Other Considerations

The foregoing summary does not purport to be a complete discussion of all provisions of the Communications Act or other congressional acts or of the regulations and policies of the FCC. For further information, reference should be made to the Communications Act, the 1996 Act,

other congressional acts, and regulations and public notices promulgated from time to time by the FCC. 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. We presently believe that none of our properties have any condition that is likely to have a material adverse effect on our financial condition or results of operations.

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 radio, newspapers, magazines, outdoor advertising, transit advertising, Internet, yellow page directories, direct mail, satellite television, local cable television and wireless video. Some competitors are part of larger organizations with substantially greater financial, technical and other resources than we have.

Television Competition. 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. In addition, certain of our DMAs are overlapped by both over-the-air and cable carriage of stations in adjacent DMAs, which tends to spread viewership and advertising expenditures over a larger number of television stations.

Broadcast television stations compete for advertising revenues primarily with other broadcast television stations, radio stations, cable channels and cable system operators serving the same market, as well as with newspapers, the Internet, yellow page directories and outdoor advertising opportunities. Traditional network programming generally achieves higher household audience levels than FOX, WB and UPN programming and syndicated programming aired by our independent stations. This can be

attributed to a combination of factors, including the traditional networks' efforts to reach a broader audience, generally better signal carriage available when broadcasting over VHF channels 2 through 13 versus broadcasting over UHF channels 14 through 69 and the higher number of hours of traditional network programming being broadcast weekly. However, greater amounts of advertising time are available for sale during FOX, UPN and WB programming and non-network syndicated programming, and as a result we believe that our programming typically achieves a share of television market advertising revenues greater than its share of the market's audience.

Television stations compete for audience share primarily on the basis of program popularity, which has a direct effect on advertising rates. A large amount of a station's programming is supplied by FOX, ABC, NBC and CBS, and to a lesser extent WB and UPN. In those periods, our affiliated stations are largely dependent upon the performance of the networks' programs in attracting viewers. Non-network time periods are programmed by the station primarily with syndicated programs purchased for cash, cash and barter, or barter-only, and also through self-produced news, public affairs, live local sporting events, 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 including radio, cable, newspapers and yellow page directories, the aggressiveness and knowledge of 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 within our DMAs.

Other factors that are material to a television station's competitive position include signal coverage, local program acceptance, network affiliation, audience characteristics and assigned broadcast frequency. Historically, our UHF broadcast stations have suffered a competitive disadvantage in comparison to stations with VHF broadcast frequencies. This historic disadvantage has gradually declined through:

carriage on cable systems, and in certain markets, direct broadcast satellite,

improvement in television receivers,

improvement in television transmitters,

wider use of all channel antennae,

increased availability of programming, and

the development of new networks such as FOX, WB and UPN.

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. A low power television station that qualifies for Class A has certain rights currently accorded to full-power television stations, which may allow them 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.

There are sources of video service other than conventional television stations, the most common being cable television, which can increase competition for a broadcast television station by bringing into its market distant broadcasting signals not otherwise available to the station's audience, serving as a distribution system for national satellite-delivered programming and other non-broadcast programming originated on a cable system and selling advertising time to local advertisers. Other principal sources of competition include home video exhibition and Direct Broadcast Satellite services and multichannel

multipoint distribution services ("MMDS"). DBS and cable operators in particular are competing more aggressively than in the past for advertising revenues. This competition could adversely affect our stations' revenues and performance in the future.

In addition, SHVIA could also have an adverse effect on our broadcast stations' audience share and advertising revenue because it may allow satellite carriers to provide the signal of distant stations with the same network affiliation as our stations to more television viewers in our markets than would have been permitted under previous law. The legislation also allows satellite carriers to provide local television signals by satellite within a station market.

Moreover, technology advances and regulatory changes affecting programming delivery through fiber optic telephone lines and video compression could lower entry barriers for new video channels and encourage the development of increasingly specialized "niche" programming. Telephone companies are permitted to provide video distribution services via radio communication, on a common carrier basis, as "cable systems" or as "open video systems," each pursuant to different regulatory schemes. 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.

We are currently exploring whether or not television broadcasting will be enhanced significantly by the development and increased availability of DTV technology. This technology has the potential to permit us to provide viewers multiple channels of digital television over each of our existing standard channels, to provide certain programming in a high definition television format and to deliver various forms of data, including data on the Internet, to PCs and handheld devices. These additional capabilities may provide us with additional sources of revenue as well as additional competition.

While DTV technology is currently available in a large number of viewing markets, a successful transition from the current analog broadcast format to a digital format may take many years. We cannot be assured that our efforts to take advantage of the new technology will be commercially successful.

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 exclusive access to those programs against in-market broadcast station competitors for syndicated products. Although, historically cable systems did not generally compete with local stations for programming, more recently national cable networks have more frequently acquired programs that would have otherwise been offered to local television stations. Public broadcasting

stations generally compete with commercial broadcasters for viewers but not for advertising dollars.

Historically, the cost of programming has increased because of an increase in the number of new independent stations and a shortage of quality programming. However, we believe that over the past five years program prices generally have stabilized or fallen on a per station basis, but aggregate programming costs have risen as we have attempted to improve the quality of our stations' programming line-ups.

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 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 December 31, 2002, we had approximately 3,179 employees. Approximately 175 employees at eight of our television stations 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

Our Internet address is: www.sbgi.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 pursuant to Section 13 (a) or 15 (d) of the Exchange Act as soon as reasonably practicable after such documents are electronically filed with the SEC. We have made these filings available prior to November 15, 2002. In addition, our earnings conference calls are web cast for seven calendar days via our website.

ITEM 6. SELECTED FINANCIAL DATA

The selected consolidated financial data for the years ended December 31, 2002, 2001, 2000, 1999 and 1998 have been derived from our audited consolidated financial statements. The consolidated financial statements for the years ended December 31, 2002, 2001 and 2000 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 report.

STATEMENT OF OPERATIONS DATA

(dollars in thousands, except per share data)

	Years Ended December 31,				
	2002	**2001**	**2000**	**1999**	**1998**
Statement of Operations Data:					
Net broadcast revenues(a)	$ 670,534	$ 623,837	$ 699,422	$ 643,088	$ 537,793
Barter revenues	60,911	53,889	54,595	60,052	55,276
Other revenues	4,344	6,925	4,494		
Total revenues	735,789	684,651	758,511	703,140	593,069
Station production expenses	140,060	142,696	149,048	140,651	106,206
Station selling, general and administrative expenses	149,399	149,048	149,464	116,795	90,393

	Years Ended December 31,				
Expenses from barter arrangements	54,567	48,159	48,543	54,463	49,805
Depreciation and amortization(b)(c)	185,939	260,526	230,889	204,612	158,653
Corporate general and administrative expenses	19,795	19,750	22,305	18,646	16,593
Stock-based compensation	1,399	1,559	1,762	2,467	2,873
Impairment and write down charge of long-lived assets		16,075			
Restructuring costs		3,700			
Contract termination costs		5,135			
Cumulative adjustment for change in assets held for sale			619		
Operating income	184,630	38,003	155,881	165,506	168,546
Interest expense(c)	(126,500)	(143,574)	(152,219)	(181,569)	(141,704)
Subsidiary trust minority interest expense(d)	(23,890)	(23,890)	(23,890)	(23,890)	(23,923)
Gain (loss) on sale of broadcast assets	(478)	204		(418)	1,232
Unrealized (loss) gain on derivative instrument	(30,939)	(32,220)	(296)	15,747	(9,050)
Loss related to investments	(1,189)	(7,616)	(16,764)		
Interest and other income	3,585	3,758	2,812	3,082	6,631
Income (loss) before income taxes	5,219	(165,335)	(34,476)	(21,542)	1,732
(Provision) benefit for income taxes	(1,369)	51,875	(3,355)	(23,281)	(30,811)
Income (loss) from continuing operations	3,850	(113,460)	(37,831)	(44,823)	(29,079)
Discontinued Operations:					
Income (loss) from discontinued operations, net of related income taxes	372	(52)	6,932	20,235	16,980
Gain on sale of broadcast assets, net of related income taxes	7,519		108,264	192,372	6,282
Extraordinary item:					
Loss on early extinguishment of debt, net of related income taxes	(9,831)	(14,210)			(11,063)
Cumulative adjustment for change in accounting principle net of related income taxes	(566,404)				
Net (loss) income	$ (564,494)	$ (127,722)	$ 77,365	$ 167,784	$ (16,880)
Net (loss) income available to common Shareholders	$ (574,844)	$ (138,072)	$ 67,015	$ 157,434	$ (27,230)
Per Share Data:					
Basic loss per share from continuing operations	$ (0.08)	$ (1.47)	$ (0.53)	$ (0.57)	$ (0.42)
Basic earnings per share from discontinued operations	$ 0.09		$ 1.26	$ 2.20	$ 0.25
Basic loss per share from extraordinary item	$ (0.12)	$ (0.17)			$ (0.12)
Basic loss per share from cumulative effect of accounting change	$ (6.64)				
Basic net income (loss) per share	$ (6.74)	$ (1.64)	$ 0.73	$ 1.63	$ (0.29)
Diluted loss per share from continuing operations	$ (0.08)	$ (1.47)	$ (0.53)	$ (0.57)	$ (0.42)
Diluted earnings per share from discontinued operations	$ 0.09		$ 1.26	$ 2.20	$ 0.25
Diluted loss per share from extraordinary item	$ (0.12)	$ (0.17)			$ (0.12)
Diluted loss per share from cumulative effect of accounting change	$ (6.64)				
Diluted net income (loss) per share	$ (6.74)	$ (1.64)	$ 0.73	$ 1.63	$ (0.29)
Balance Sheet Data:					
Cash and cash equivalents	$ 5,327	$ 32,063	$ 4,091	$ 16,408	$ 3,268
Total assets	$ 2,606,773	$ 3,289,426	$ 3,400,640	$ 3,619,510	$ 3,852,752
Total debt(e)	$ 1,551,970	$ 1,685,630	$ 1,616,426	$ 1,792,339	$ 2,327,221

	Years Ended December 31,				
HYTOPS(f)	$ 200,000	$ 200,000	$ 200,000	$ 200,000	$ 200,000
Total stockholders' equity	$ 211,180	$ 771,960	$ 912,530	$ 974,917	$ 816,043

(a) "Net broadcast revenues" are defined as broadcast revenues net of agency commissions.

(b) Depreciation and amortization includes amortization of program contract costs and net realizable value adjustments, depreciation and amortization of property and equipment, and amortization of acquired intangible broadcasting assets, other assets and costs related to excess syndicated programming.

(c) Depreciation and amortization and interest expense amounts differ from prior presentations for the fiscal years ended December 31, 2000, 1999, and 1998. Previously the amortized costs associated with the issuance of indebtedness had been classified as depreciation and amortization instead of being classified as interest expense. Accordingly, we reclassified $3,313, $3,288 and $2,752 as interest expense for the fiscal years ended December 31, 2000, 1999 and 1998, respectively.

(d) Subsidiary trust minority interest expense represents the distributions on the HYTOPS and amortization of deferred finance costs. See footnote (f).

(e) "Total debt" is defined as long-term debt, net of unamortized discount, and capital lease obligations, including the current portion thereof. Total debt does not include the HYTOPS or our preferred stock.

(f) HYTOPS represents our Obligated Mandatorily Redeemable Security of Subsidiary Trust Holding Solely KDSM Senior Debentures representing $200 million aggregate liquidation value.

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

Introduction

We are a diversified broadcasting company that owns and operates, provides programming services pursuant to LMAs or provides sales services pursuant to outsourcing agreements to more television stations than all but one other commercial broadcasting group in the United States. We currently own, provide programming services pursuant to LMAs or provide sales services to 62 television stations in 39 markets. We currently have duopolies where we own and operate two stations in ten markets; own and operate a station and provide programming and operating services to a second station in nine markets; and own a station and provide or are provided sales, operational and managerial services to a second station in four markets.

Our operating revenues are derived from local and national advertisers and, to a much lesser extent, from political advertisers and television network compensation. Our revenues from local advertisers have continued to trend upward and revenues from national advertisers have continued to trend downward when measured as a percentage of gross broadcast revenue. We believe this trend is primarily the result of our focus on increasing local advertising revenues as a percentage of total advertising revenues, from a decrease in overall spending by national advertisers and from an increase in the number of media outlets providing national advertisers a means by which to advertise their goods or services. Our efforts to mitigate the effect of increasing national media outlets include continuing our efforts to increase local revenues and developing innovative marketing strategies to sell traditional and non-traditional services to national advertisers.

Our primary operating expenses are syndicated program rights fees, commissions on revenues, employee salaries, and newsgathering and station promotional costs. Amortization and depreciation of costs associated with the acquisition of the stations and interest carrying charges are significant factors in determining our overall profitability.

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of our operations are 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, income taxes, program contract costs, property and equipment, intangible assets, investments, and derivative contracts. 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. Actual results may differ from these estimates under different assumptions or conditions.

We have identified the policies below as critical to our business operations and the understanding of our results of operations. For a detailed discussion on the application of these and other accounting policies, see the Notes to the Consolidated Financial Statements.

Allowance for Doubtful Accounts. We maintain an allowance for doubtful accounts for estimated losses resulting from the inability of our customers 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 their payments, additional allowances may be required.

Program Contract Costs. We have agreements with distributors for the rights to television programming over contract periods, which generally run from one to seven years. Contract payments

are made in installments over terms that are generally shorter than the contract period. Each contract is recorded as an asset and a liability at an amount equal to its gross 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.

The rights to program materials are reflected in the Consolidated Balance Sheets at the lower of unamortized cost or estimated net realizable value. Estimated net realizable values are based upon management's expectation of future advertising revenues net of sale commissions to be generated by the program material. Amortization of program contract costs is generally computed using either a four year accelerated method or based on usage, whichever yields the greater amortization for each program. Program contract costs, estimated by management to be amortized in the succeeding year, are classified as current assets. Payments of program contract liabilities are typically paid on a scheduled basis and are not affected by adjustments for amortization or estimated net realizable value. If we are unable to realize management's estimate of future advertising revenues, additional writedowns to net realizable value may be required.

Valuation of Goodwill, Long-Lived Assets and Intangible Assets. We periodically evaluate our goodwill, long-lived assets and intangible assets for potential impairment indicators. Our judgments regarding the existence of impairment indicators are based on estimated future cash flows, market conditions, operational performance of our stations and legal factors. Future events could cause us to conclude that impairment indicators exist and that the net book value of long-lived assets and intangible assets is impaired. Any resulting impairment loss could have a material adverse impact on our financial condition and results of operations.

Income Taxes. We recognize deferred tax assets and liabilities based on the differences between the financial statement carrying amounts and the tax bases of assets and liabilities. A valuation allowance has been provided for deferred tax assets relating to various state net operating loss ("NOL") carryforwards based on historical taxable income, projected future taxable income and the expected timing of the reversals of existing temporary differences. Although realization is not assured for the remaining deferred tax assets, we believe that it is more likely than not that they will be realized through future taxable earnings or alternative tax strategies. If we are unable to generate sufficient taxable income, if there is a material change in our projected future taxable income, or if there is a change in the ability to utilize the state NOL carryforwards due to changes in state laws, we will make any necessary adjustments to the valuation allowance. This may result in a substantial increase in our effective tax rate and a material adverse impact on our operating results.

Set forth below are the principal types of broadcast revenues received by our stations for the periods indicated and the percentage contribution of each type to our total gross broadcast revenues:

BROADCAST REVENUE

(dollars in thousands)

	Years ended December 31,					
	2002		2001		2000	
Local/regional advertising	$ 413,428	53.3%	$ 391,872	54.3%	$ 405,134	49.9%
National advertising	309,923	40.0%	307,514	42.7%	355,697	43.9%
Network compensation	16,450	2.1%	16,754	2.3%	17,656	2.2%
Political advertising	33,176	4.3%	2,559	0.4%	29,990	3.7%
Production	1,966	0.3%	2,069	0.3%	2,379	0.3%
Broadcast revenues	774,943	100.0%	720,768	100.0%	810,856	100.0%
Less: agency commissions	(104,409)		(96,931)		(111,434)	
Broadcast revenues, net	670,534		623,837		699,422	
Barter revenues	60,911		53,889		54,595	
Other revenues	4,344		6,925		4,494	
Total revenues	$ 735,789		$ 684,651		$ 758,511	

Our primary types of programming and their approximate percentages of 2002 net broadcast revenues were syndicated programming (51.5%), network programming (24.9%), news (13.8%), direct advertising programming (6.6%), sports programming (2.6%) and children's programming (0.6%). Similarly, our five largest categories of advertising and their approximate percentages of 2002 net time sales were automotive (23.2%), professional services (10.7%), fast food advertising (7.4%), retail department stores (6.7%), and paid programming (6.7%). No other advertising category accounted for more than 4.5% of our net time sales in 2002. No individual advertiser accounted for more than 2.7% of our consolidated net broadcast revenues in 2002.

The following table sets forth certain of our operating data for the years ended December 31, 2002, 2001 and 2000. For definitions of items, see footnotes to table in "Item 6. Selected Financial Data".

OPERATING DATA

(dollars in thousands)

	Years ended December 31,		
	2002	2001	2000
Net broadcast revenue	$ 670,534	$ 623,837	$ 699,422
Barter revenue	60,911	53,889	54,595
Other revenue	4,344	6,925	4,494
Total revenue	735,789	684,651	758,511
Station production expenses	140,060	142,696	149,048
Station selling, general and administrative expenses	149,399	149,048	149,464
Expenses from barter arrangements	54,567	48,159	48,543
Depreciation and amortization	185,939	260,526	230,889
Corporate general and administrative expenses	19,795	19,750	22,305

	Years ended December 31,		
Stock-based compensation	1,399	1,559	1,762
Impairment and write down charge of long-lived assets		16,075	
Restructuring costs		3,700	
Contract termination costs		5,135	
Cumulative adjustment for change in assets held for sale			619
Operating income	$ 184,630	$ 38,003	$ 155,881
Cumulative effect of change in accounting principle	$ (566,404)	$	$
Net income (loss)	$ (564,494)	$ (127,722)	$ 77,365
Net income (loss) available to common shareholders	$ (574,844)	$ (138,072)	$ 67,015

Results of Operations

Years Ended December 31, 2002 and 2001

During 2002, we continued to see strengthening in our broadcast business even without regard to the significant inflow of political advertising revenues. Net broadcast revenues, excluding political, grew despite the economy not being in a full recovery and a threat of war looming. The growth came from both the local and national markets. Throughout 2002, our quarterly revenues, excluding political, grew at successively higher growth rates. During 2003, we expect our revenue, excluding political, to grow in the low single digits on a year over year basis. During 2003, we will continue to roll-out our News Central product with the goal of capturing a larger share of 2004 political revenues and to further drive our stations' competitive positions and grow market share. We will also focus on increasing our sales efforts to convert non-traditional television advertisers to our television stations, primarily through our direct mail promotion campaign. We await the FCC's industry deregulation decisions and expect to participate in potential ensuing transactions. In addition to strengthening our television portfolio, we will continue to evaluate our capital structure and how best to utilize our cash flow.

Net loss available to shareholders for the year ended December 31, 2002 was $574.8 million or net loss of $6.74 per share compared to net loss of $138.1 million or loss of $1.64 per share for the year ended December 31, 2001. The net loss for the year ended December 31, 2002 was largely the result of the cumulative effect of change in accounting principle of $566.4 million net of taxes.

As a result of adopting SFAS No. 142, we recorded an impairment charge of $566.4 million related to our broadcast licenses and goodwill reflected as a cumulative effect of a change in accounting principle on our consolidated statement of operations, net of the related tax benefit of $30.4 million during the first quarter 2002. This was a non-cash charge which had no effect on our liquidity or capital resources currently or prospectively. Without this charge, our net loss available to shareholders during the year ended December 31, 2002 would have been $8.4 million. (See "Note 1, Summary of Significant Accounting Policies, Recent Accounting Pronouncements," and " Risk Factors *We have lost money in three of the last five years and may continue to do so indefinitely, which may impair our ability to pay our debt obligations*" for further explanation.)

Net broadcast revenues increased to $670.5 million for the year ended December 31, 2002 from $623.8 million for the year ended December 31, 2001, or 7.5%. The year ending December 31, 2002 was positively impacted by higher advertising revenues generated from the political, automotive, services, restaurants, home products, schools, and beer/wine, offset by weakness in the fast food and soft drink sectors. During the year ended December 31, 2002, national revenues increased to $271.9 million, or 7.0%, from $254.0 million during 2001. National political revenues increased $19.1 million, or 1,888.0%. During the year ended December 31, 2002, local revenues increased to $369.0 million, or 8.3%, from $340.6 million during 2001. Local political revenues increased $6.9 million, or 556.0%, representing 2.0% of the increase in total local revenues. The increase in political revenues was primarily the result of the several primary and general elections during 2002. During the year ended December 31, 2002, we had increased revenue of $6.6 million related to our direct mail initiative, $2.2 million related to the Super Bowl, and $1.0 million related to the Olympics. During the year ended December 31, 2001 we had decreased revenues of $5.4 million related to the terrorist attacks of September 11th.

National revenues, excluding political revenues, declined $1.3 million to $251.7 million, or 0.5%, during the year ended December 31, 2002 from $253.0 million during the year ended December 31, 2001. Local revenues, excluding political revenues, increased $21.5 million to $360.8 million, or 6.3%, during the year ended December 31, 2002 from $339.3 million during 2001.

Same station basis is a comparison of only the stations that we owned or provided programming and operating services pursuant to an LMA for both entire years ending December 31, 2002 and 2001. Comparing results on a "same stations basis" enhances the understanding of our business and revenue growth because we are able to disclose our ability to grow revenue at television stations owned and

operated during the two most recent fiscal years. This enables us to eliminate the impact of partial year activity of acquisitions and dispositions occurring during the two most recent fiscal years. While reporting actual historical results for all stations owned and operated during the fiscal year is vital to understanding our performance, we believe that it is important to analyze stations owned during the past two fiscal years as a measure of our operating performance. On a same station basis for the year ended December 31, 2002, national revenues including political revenues increased $17.2 million, or 6.8%, and local sales increased $29.4 million, or 8.8%, over 2001. The increase in national revenues was primarily due to the increase in political revenues. The increase in local revenues is related to our continued focus on developing a strong local sales force at each of our stations.

In addition, for the year ended December 31, 2001, the events of September 11th had a direct impact on the revenues of media related businesses. The impact of the terrorist attacks to us due to pre-emptions and cancelled advertisements was estimated to be a $5.4 million revenue loss during 2001.

The network affiliations that experienced the largest revenue growth for the year ended December 31, 2002 were our NBC and CBS affiliates which increased 21.3% and 19.3%, respectively, compared with the year ended December 31, 2001. Our ABC and FOX affiliates experienced revenue growth of 11.3% and 9.1%, respectively, for the year ended December 31, 2002 as compared to the year ended December 31, 2001. The WB affiliates' revenue increased 2.0% for the year ended December 31, 2002 as compared to the year ended December 31, 2001. The UPN affiliates' revenue decreased 1.7% for the year ended December 31, 2002 as compared to the year ended December 31, 2001.

Other revenue decreased to $4.3 million for the year ended December 31, 2002 from $6.9 million for the year ended December 31, 2001 or 37.7%. The decrease in revenue relates to a decreased demand for services from our software development and consulting company, due to the slow economy and a decrease in revenue of $0.4 million related to the closing of the San Francisco office during the first quarter 2001.

Station production expenses decreased $2.6 million to $140.1 million for the year ended December 31, 2002 from $142.7 million for the year ended December 31, 2001. The decrease in operating costs related to a decrease of $6.5 million related to our LMA fees, due to the acquisition of 15 television broadcast licenses during the three months ended March 31, 2002. Our results of operations from LMA stations are typically lower than they would have been if we had owned the televisions stations. The results of operations of our LMA stations are lower because of higher programming and production expenses due to the incurrence of the LMA fees. We cannot currently expand the number of stations that we operate pursuant to LMAs nor can we acquire such stations because of current FCC regulations (See "Business Federal Regulation of Television Broadcasting Local Marketing Agreements). News costs decreased by $3.5 million related to the discontinuation of news at our stations KDNL-TV, St. Louis, Missouri and WXLV-TV, Winston-Salem, North Carolina. In addition, other miscellaneous production expense decreased by $0.4 million. These decreases were offset by increases of $2.1 million in engineering costs, $1.7 million related to music license fees, $1.5 million in programming fees related to increased costs for affiliate agreements, $1.3 million in rating service fees, and $1.2 million related to increased promotional spending during the May Sweeps.

Station selling, general and administrative expenses increased $0.4 million to $149.4 million for the year ended December 31, 2002 from $149.0 million for the year ended December 31, 2001. Sales commissions increased by $3.3 million as a result of improved sales. This increase was offset by decreases of $1.6 million related to a decrease in national representation commissions, $1.2 million related to a reduction in bad debt expense, and $0.1 million related to traffic costs.

Corporate general and administrative expenses were $19.8 million for each of the years ended December 31, 2002 and 2001. Corporate general and administrative expense represents the cost to operate our corporate headquarters location. Such costs include corporate departmental salaries, bonuses and fringe benefits, officers' life insurance, rent, telephone, consulting fees, legal and

accounting fees and director fees. Corporate departments include executive committee, treasury, finance and accounting, human resources, technology, corporate relations, legal, sales, operations, purchasing and centralized news.

Depreciation and amortization decreased $74.6 million to $185.9 million for the year ended December 31, 2002 from $260.5 million for the year ended December 31, 2001. The decrease in depreciation and amortization for the year ended December 31, 2002 as compared to the year ended December 31, 2001 was related to the adoption of SFAS No. 142 which resulted in the discontinuation of amortization of our goodwill and broadcast licenses. Amortization of intangible assets decreased by $93.0 million, offset by an increase aggregating $15.0 million related to amortization of our program contract costs and net realizable value adjustments related to our addition of new programming primarily consisting of Dharma & Greg and Will & Grace as well as write downs primarily related to additional seasons for Frasier, Drew Carey, Spin City, Just Shoot Me, and Third Rock from the Sun and an increase in fixed asset depreciation of $3.4 million related to our property additions, primarily resulting from our digital television conversion.

For the year ended December 31, 2002, we did not incur any restructuring charges, impairment and write-down of long-lived assets (except for the impact of adopting SFAS No. 142) or contract termination costs. During the three months ended March 31, 2001, we offered a voluntary early retirement program to our eligible employees and implemented a restructuring program to reduce operating and overhead costs. As a result, we reduced our staff by 186 employees and incurred a restructuring charge of $2.3 million, which is included in the accompanying consolidated statements of operations. During September 2001, our station KDNL-TV in St. Louis, Missouri, discontinued programming its local news broadcast. As a result, we incurred a restructuring charge of $1.1 million. During December 2001, WXLV-TV in Winston-Salem, North Carolina discontinued programming its local news broadcast. As a result we incurred a restructuring charge of $0.3 million. The restructuring charges related to severance and operating contract termination costs. During the nine months ended September 2001, we incurred an impairment and write-down of long-lived assets of $5.5 million and contract termination costs of $5.1 million.

Operating income increased $146.6 million to $184.6 million for the year ended December 31, 2002 from $38.0 million for the year ended December 31, 2001, or 385.8%. The net increase in operating income for the year ended December 31, 2002 as compared to the year ended December 31, 2001 was primarily attributable to a decrease in amortization due to the adoption of SFAS No. 142 which resulted in the discontinuation of amortization of our goodwill and FCC licenses offset by an increase in program contract amortization expense and property and equipment depreciation expense as discussed above. Operating income was also affected by a decrease in program and production expenses due to the acquisition of 15 television broadcast licenses resulting in our ability to operate at a cost lower than operating those stations as LMA structures and reduced spending for sweeps promotion due to direct competition from the Olympics. During the year ended December 31, 2001, we incurred a loss of $16.1 million related to a write down charge of long-lived assets. This charge is comprised of goodwill related to our software development company and our station KBSI-TV in Paducah, Kentucky, and a write off of fixed assets which represent the net book value of damaged, obsolete or abandoned property. We also incurred contract termination costs of $5.1 million and restructuring charges of $3.7 million as a result of a voluntary early retirement program and cancellation of local news programs during the year ended December 2001. We did not incur any write-down charge of long-lived assets, contract termination or restructuring charges for the year ended December 31, 2002.

Interest expense decreased to $126.5 million for the year ended December 31, 2002 from $143.6 million for the year ended December 31, 2001, or 11.9%. The decrease in interest expense for the year ended December 31, 2002 resulted from the refinancing of indebtedness at lower interest rates during December 2001, March 2002, July 2002, November 2002 and December 2002 and an overall lower interest rate environment.

Our income tax provision was $1.4 million for the year ended December 31, 2002 compared to an income tax benefit of $51.9 million for the year ended December 31, 2001. Our tax rate changed to a provision in 2002 from a benefit in 2001 because we reported net income in 2002 compared to a net loss in 2001. The effective tax rate from continuing operations decreased to 26.2% for the year ended December 31, 2002 from 31.3% for the year ended December 31, 2001. The decrease is primarily because (prior to the implementation of SFAS No. 142 for 2002) our reported income in 2001 was reduced by amortization of goodwill, which was non-deductible for tax purposes.

Loss related to investments decreased to $1.2 million for the year ended December 31, 2002 as compared to $7.6 million for the year ended December 31, 2001. The loss related to investments for the year ended December 31, 2002 primarily relates to a loss of $1.4 million as a result of a write down of our investment in Allegiance Capital, a loss of $0.1 million from the sale of our interest in Synergy Brands, Inc., offset by a gain of $0.3 million related to proceeds of a settlement to shareholders of Acrodyne.

We recognized income from discontinued operations of $7.9 million, which includes a gain on the sale of WTTV-TV in Indianapolis, Indiana of $7.5 million for the year ended December 31, 2002 as compared to a loss from discontinued operations of $52,000 for the year ended December 31, 2001.

For the year ended December 31, 2002, we reported a $9.8 million extraordinary loss related to the call premium and write-off of deferred financing costs and interest, net of taxes, resulting from the repayment of our $300.0 million Term Loan Facility and 1998 Bank Credit Agreement and the early redemption of our 9% senior subordinated notes due 2007 and our 8.75% senior subordinated notes due 2007.

For the year ended December 31, 2001, we reported a $14.2 million extraordinary loss related to the call premium and write-off of deferred financing costs and interest, net of taxes, resulting from the early redemption of our 10% senior subordinated notes due 2005, and amendments to our bank credit agreement.

As a result of the implementation of SFAS No. 133, one of our derivatives does not qualify for special hedge accounting treatment. Therefore, this derivative must be recognized in the balance sheet at fair market value and the changes in fair market value are reflected in earnings. As a result, we recognized $32.2 million of losses during 2001 and $30.9 million of losses during 2002.

Years ended December 31, 2001 and 2000

Revenue declined $75.6 million for the year ended December 31, 2001 compared to the year ended December 31, 2000. This was primarily the result of decreased advertising expenditures resulting from the economic recession, terrorist acts and increased competition for national advertising. Our sales force continued to aggressively sell, despite the negative environment. This strong sales effort, combined with our focus on the local markets helped us to minimize our revenue declines. We continued to manage our costs during this economic slowdown.

Net loss available to common shareholders for the year ended December 31, 2001 was $138.1 million or $1.64 per share compared to net income available to common stockholders for the year ended December 31, 2000 of $67.0 million or $0.73 per share. (See " Risk Factors *We have lost money in three of the last five years and may continue to do so indefinitely, which may impair our ability to pay our debt obligations*" for further explanation.)

Net broadcast revenue decreased $75.6 million to $623.8 million for the year ended December 31, 2001 from $699.4 million for the year ended December 31, 2000, or 10.8%. The decrease in net broadcast revenue for the year ended December 31, 2001 as compared to the year ended December 31, 2000 was comprised of a decrease in revenues of $84.1 million on a same station basis offset by an increase of $8.5 million related to 2000 acquisitions, and the 2001 outsourcing agreement with WTXL-TV. On a same station basis, local revenue decreased $23.0 million and national revenue decreased $63.6 million, offset by an increase in other broadcast revenue of $4.0 million. Other

broadcast revenue increased by $2.5 million related to an increase in tower rental revenue and an increase in syndicator revenue. Political revenues declined $23.7 million to $2.3 million for the year ended December 31, 2001 compared to $26.0 million for the year ended December 30, 2000, or 91.2%, representing 1.5% of the decrease in local revenues and 4.6% of the decrease in national revenues. The decrease in political revenues was primarily the result of the Presidential election and numerous local elections during the 2000 period. The decrease in national and local revenues was primarily due to a soft advertising market resulting from a weak economy as well as increasing competition from other forms of advertising-based mediums, particularly network, cable television, direct satellite television, and Internet that have a direct impact on the distribution of advertising dollars in our markets. In addition, the events of September 11, 2001 had a direct impact on the revenues of media related businesses. The terrorist attacks led to the pre-emption and cancellation of advertisements, which caused a $5.4 million revenue loss during 2001.

Other revenue increased $2.4 million to $6.9 million for the year ended December 31, 2001 from $4.5 million for the year ended December 31, 2000, or 53.3%. The increase was comprised of a general increase in Internet consulting and development revenue generated by G1440, which represents sales of $1.9 million and an increase in sales of $1.5 million due to the 2000 acquisition of a software design company, an increase in sales related to the "Builder" software product division offset by a decrease of $1.2 million related to the reorganization of the San Francisco office of G1440.

Station production expenses decreased $6.3 million to $142.7 million for the year ended December 31, 2001 from $149.0 million for the year ended December 31, 2000. Promotional spending decreased $3.8 million, news costs were down $3.4 million and other production costs decreased $1.7 million. These were offset by increases of $1.2 million for rating service costs, $0.9 million for LMA fees and $0.5 million for programming costs.

Station selling, general and administrative expenses decreased $0.5 million to $149.0 million for the year ended December 31, 2001 from $149.5 million for the year ended December 31, 2000. The decrease in selling, general and administrative costs related to an increase of $1.9 million in general and administrative costs for G1440, $0.7 million for health insurance, and $0.9 million in bad debt expense, and an increase of $0.5 million in traffic costs, offset by a decrease in sales expense of $4.5 million.

Corporate general and administrative expenses decreased $2.5 million to $19.8 million for the year ended December 31, 2001 from $22.3 million for the year ended December 31, 2000. The decrease of $2.5 million related to decreased salaries. Corporate general and administrative expense represents the cost to operate our corporate headquarters location. Such costs include corporate departmental salaries, bonuses and fringe benefits, officers' life insurance, rent, telephone, consulting fees, legal and accounting fees and director fees. Corporate departments include executive committee, treasury, finance and accounting, human resources, technology, corporate relations, legal, sales, operations, purchasing and centralized news.

Depreciation and amortization increased $29.6 million to $260.5 million for the year ended December 31, 2001 from $230.9 million for the year ended December 31, 2000. The increase in depreciation and amortization for the year ended December 31, 2001 compared to the year ended December 31, 2000, related to the additions associated with the 2000 acquisitions and program contract additions related to our investment in programming. The program contract amortization increased by $21.1 million, the amortization of intangible assets increased by $7.8 million, and depreciation of fixed assets increased by $0.7 million.

Interest expense decreased $8.6 million to $143.6 million for the year ended December 31, 2001 from $152.2 million for the year ended December 31, 2000, or 5.7%. The decrease in interest expense for the year ended December 31, 2001 as compared to the year ended December 31, 2000 primarily resulted from the reduction of our indebtedness using the proceeds from the disposition of our radio broadcast assets in December 2000 and, during 2001, an overall lower interest rate market

environment, offset by an increase in interest expense related to capital leases. Subsidiary trust minority interest expense of $23.9 million for the year ended December 31, 2001 is related to the private placement of the $200 million aggregate liquidation value 11.625% high yield trust offered preferred securities (HYTOPS) completed March 12, 1997.

Operating income decreased $117.9 million to $38.0 million for the year ended December 31, 2001 from $155.9 million for the year ended December 31, 2000. The net decrease in operating income for the year ended December 31, 2001 as compared to the year ended December 31, 2000 was primarily attributable to a decrease in net broadcast revenues, an increase in depreciation and amortization, an impairment and write down charge of $16.1 million, a restructuring charge of $2.3 million related to a reduction in our work force of 186 employees and a restructuring charge of $1.4 million related to the discontinuance of the news at our stations KDNL-TV, St. Louis, Missouri and WXLV-TV in Winston-Salem, North Carolina. These costs were offset by decreases in programming production costs as well as selling, general and administrative costs.

During June 2001, the San Francisco office of our Internet consulting and development subsidiary was reorganized. The office reduced staff due to a significant slow down of business activity in the San Francisco market. In addition, the focus of the San Francisco office has shifted toward marketing an existing product. As a result, management determined that the San Francisco office's goodwill was permanently impaired and, as such, recorded a charge to write-off goodwill in the amount of $2.8 million during June 2001. Also, during 2001, we wrote-off $4.2 million of fixed assets which represents the net book value of damaged, obsolete, or abandoned property. The impairment and write-down charge decreased operating income as noted above.

During February 2001, we offered a voluntary early retirement program to eligible employees and implemented a restructuring program to reduce operating and overhead costs. As a result, we reduced our staff by 186 employees and incurred a restructuring charge of $2.3 million, which is included in the accompanying Consolidated Statements of Operations. During September 2001, KDNL-TV in St. Louis, Missouri discontinued programming its local news broadcast. As a result, we incurred a restructuring charge of $1.1 million. During December 2001, WXLV-TV in Winston-Salem, North Carolina discontinued programming its local news broadcast. As a result, we incurred a restructuring charge of $0.3 million. The restructuring charges related to severance, operating contract termination costs, and legal costs. The restructuring charge decreased operating income for the year ended December 31, 2001.

During the third quarter of 2001, Sinclair terminated certain agreements and entered into new agreements with unrelated third parties. We incurred $5.1 million of contract termination costs and we received $21.4 million for entering the new contract. Both the amounts will be recognized as a reduction of selling, general and administrative expenses on a straight-line basis over the term of the contracts.

Loss related to investments decreased to $7.6 million for the year ended December 31, 2001 as compared to $16.8 million for the year ended December 31, 2000. The loss related to investments for the year ended December 31, 2001 primarily relates to a loss of $4.2 million recognized during 2001 as a result of our write-off of our loans to Acrodyne Communications, Inc. (Acrodyne), of which, as of December 31, 2001, we held approximately a 35% equity interest. We also recognized losses as a result of write-downs of our investments for How Stuff Works, Inc. of $0.9 million, Chatfish of $0.6 million and Synergy Brands, Inc. of $2.1 million. Our equity earnings for our investment in Allegiance Capital L.P. increased by $0.2 million.

We recognized a loss from discontinued operations of $52,000 for the year ended December 31, 2001 as compared to $6.9 million for the year ended December 31, 2000. The loss from discontinued operations for the year ended December 31, 2001 related to the sale of WTTV-TV in Indianapolis, Indiana. Of the net income from discontinued operations, net of taxes for the year ended December 31, 2000, $2.0 million related to the sale of WTTV-TV, Indianapolis, Indiana and

$4.9 million resulted from the disposition of our radio broadcast assets in December 1999 and during 2000.

For the year ended December 31, 2001, we reported a $14.2 million extraordinary loss related to the call premium and write-off of deferred financing costs and interest, net of taxes, resulting from the early redemption of our 10% senior subordinated notes due 2005, and amendments to our bank credit agreement.

As a result of the implementation of SFAS No. 133, one of our derivatives does not qualify for special hedge accounting treatment. Therefore, this derivative must be recognized in the balance sheet at fair market value and the changes in fair market value are reflected in earnings. As a result, we recognized $32.2 million of losses during 2001.

Recent Accounting Pronouncements

In June 2001, the Financial Accounting Standards Board (FASB), approved Statement of Financial Accounting Standard (SFAS) No. 141, *Business Combinations*, and SFAS No. 142, *Goodwill and Other Intangible Assets*. SFAS No. 141 prospectively prohibits the pooling of interest method of accounting for business combinations initiated after June 30, 2001. SFAS No. 142 requires companies to cease amortizing goodwill and certain other intangible assets including broadcast licenses effective January 1, 2002. SFAS No. 142 also establishes a new method of testing goodwill and broadcast licenses for impairment on an annual basis or on an interim basis if an event occurs or circumstances change that would reduce the fair value of a reporting unit below its carrying value. The adoption of SFAS No. 142 resulted in discontinuation of amortization of our goodwill and broadcast licenses effective January 1, 2002; however, we were required to test goodwill and broadcast licenses for impairment under the new standard during 2002. As a result of such testing, we recorded a pre-tax write-off of goodwill and broadcast licenses of $596.8 million as of January 1, 2002.

During the three months ended March 31, 2002, we tested our broadcast licenses for impairment in accordance with SFAS No. 142 based on the estimated fair value of such licenses in their respective markets. We estimated the fair values of our broadcast licenses using discontinued cash flow models. The estimated fair value was compared to the book value to determine whether any impairment had occurred. As a result of this analysis we incurred a pretax impairment charge of $64.0 million.

SFAS No. 142 requires that goodwill be tested for impairment at the reporting unit level at adoption and at least annually thereafter, utilizing a two-step methodology. The initial step required us to determine the fair value of each reporting unit and compare it to the carrying value, including goodwill, of such unit. If the fair value exceeded the carrying value, no impairment loss was recognized. However, if the carrying value of the reporting unit exceeded its fair value, the goodwill of this unit might have been impaired. The amount, if any, of the impairment would then be measured in the second step. The second step requires us to calculate the fair value of goodwill by allocating the fair value of the reporting unit to each of the assets and liabilities of the reporting unit based on their fair values. This calculated goodwill is then compared to the book value of the goodwill and an impairment loss is recognized to the extent that the book value exceeds the fair value.

We determined that our designated marketing areas (DMAs) were reporting units under SFAS 142. In connection with adopting this standard during 2002, we completed step one of the test for impairment by comparing the book value of our reporting units, including goodwill, to the estimated fair value of our reporting units as of January 1, 2002. We estimated the fair value of our reporting units using a combination of quoted market prices, observed earnings multiples paid for comparable television stations and discounted cash flow models.

We performed the second step of the goodwill impairment test for those DMAs whose goodwill was found to be potentially impaired as a result of the first step. We performed the second step by allocating the estimated fair value of the reporting unit to each of the assets and liabilities of the reporting unit based on their estimated fair values. We estimated the fair values of the assets and

liabilities using a combination of observed prices paid for similar assets and liabilities, discounted cash flow models and appraisals.

As a result of such testing, we recorded a pre-tax impairment charge of $532.8 million related to nine of our DMAs and our software development and consulting company. The total impairment charge of $596.8 million related to our broadcast licenses and goodwill is reflected as a cumulative effect of a change in accounting principle on our consolidated statement of operations, net of the related tax benefit of $30.3 million.

SFAS 142 requires goodwill and definite lived intangible assets to be tested for impairment on an annual basis; therefore, we tested these assets for impairment as of October 1, 2002 by comparing their book values to their estimated fair values. There was no impairment charge recorded based on the results of such testing.

SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended by SFAS No. 137, *Accounting for Derivative Instruments and Hedging Activities Deferral of the Effective Date of FASB Statement No. 133,* and SFAS No. 138*, Accounting for Derivative Instruments and Hedging Activities* requires that an entity recognize all derivative instruments and hedging activities as either assets or liabilities on the balance sheet measured at their fair values. Changes in fair value of all derivative instruments and hedging activities are required to be recognized through earnings unless specific hedge accounting criteria are met. We adopted SFAS No. 133 as of January 1, 2001.

In June 2001, the FASB approved SFAS No. 143, *Accounting for Asset Retirement Obligations*. SFAS No. 143 is effective for fiscal years beginning after June 15, 2002 and addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. We do not expect the adoption of SFAS No. 143 to have a material effect on our financial statements.

We adopted SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* on January 1, 2002. As a result of adopting SFAS No. 144, we classified the assets and liabilities of WTTV-TV as assets and liabilities held for sale on the balance sheet and reported the results of operations of WTTV-TV as discontinued operations on the accompanying statements of operations.

In April of 2002, the FASB approved SFAS No. 145, *Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13 and Technical Corrections*. SFAS No. 145 will require us to record gains and losses on extinguishment of debt as a component of income from continuing operations rather than as an extraordinary item and to reclassify such items for all periods presented. We adopted this provision of SFAS No. 145 on January 1, 2003. We do not expect the other provisions of SFAS No. 145 to have a material effect on our consolidated financial statements.

In June 2002, the FASB approved SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*. SFAS No. 146 is effective after December 31, 2002, and addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies EITF issue No. 94-3, *Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity.* The primary difference between SFAS No. 146 and EITF 94-3 concerns the timing of liability recognition and we do not expect the adoption of SFAS No. 146 to have material effect on our consolidated financial statements.

In November 2002, the Emerging Issues Task Forces (EITF) reached a consensus on Issue 02-16, *Accounting by Reseller for Cash Consideration Received from a Vendor*, (EITF 02-16). EITF 02-16 requires us to treat our deferred commission credits as a reduction in selling expense when realized and not as broadcast revenue. We adopted EITF 02-16 on December 31, 2002. This adoption resulted in a reclassification of $3.9 million and $1.6 million for the years ended December 2002 and 2001, respectively.

As of December 2002, we adopted SFAS No. 148, *Accounting for Stock-Based Compensation-Transaction and Disclosure, an Amendment of FASB No. 123.* SFAS No. 148 revises the methods permitted by SFAS No. 123 of measuring compensation expense for stock-based employee compensation plans. We use the intrinsic value method prescribed in Accounting Principles Board Opinion No. 25, as permitted under SFAS No. 123. Therefore, this change did not have a material effect on our financial statements. SFAS No. 148 requires us to disclose pro forma information related to stock-based compensation, in accordance with SFAS No. 123, on a quarterly basis in addition to the current annual basis disclosure. We will report the pro forma information on an interim basis beginning with our March 31, 2003 Form 10-Q.

In January 2003, the Financial Accounting Standards Board (FASB) issued Interpretation No. 46, *Consolidation of Variable Interest Entities, an Interpretation of Accounting Research Bulletin (ARB) No. 51* (FIN 46). FIN 46 introduces the variable interest consolidation model, which determines control and consolidation based on potential variability in gains and losses of the entity being evaluated for consolidation. We believe that Cunningham Broadcasting is the only entity that would be considered a variable interest entity under FIN 46. We commenced consolidating Cunningham on February 1, 2002; therefore, we do not expect FIN 46 to have a material impact on our financial statements.

Liquidity and Capital Resources

Our primary source of liquidity is cash provided by operations and availability under our 2002 Bank Credit Agreement. As of December 31, 2002, we had $5.3 million in cash balances and working capital of approximately $88.5 million. We anticipate that cash flow from our operations and revolving credit facility will be sufficient to satisfy our debt service obligations, dividend requirements, capital expenditure requirements and operating cash needs for the next year. There can be no assurance that we will be successful in obtaining the required amount of funds for these items. As of February 14, 2003, we had borrowed $500 million on our Term Loan B Facility and $52.0 million on our revolving credit facility. The remaining balance available under the revolving credit facility was $173.0 million as of February 14, 2003. Our ability to draw down our line of credit is based on pro forma trailing cash flow levels and for the twelve months ended December 31, 2002, we had approximately $173.0 million available of current borrowing capacity under our revolving credit facility.

In March 2002, we completed an issuance of $300.0 million aggregate principal amount of 8% Senior Subordinated Notes (the 2002 Notes), due 2012, generating net proceeds to us of $297.3 million. The gross proceeds of this offering were utilized to repay $300.0 million of the Term Loan Facility under our 1998 Bank Credit Agreement. We recognized an extraordinary loss of $0.7 million, net of a tax benefit of $0.4 million. The extraordinary loss represented a write-off of the deferred financing costs. Interest on the 2002 Notes is payable semiannually on March 15th and September 15th of each year beginning September 15, 2002. The 2002 Notes were issued under an indenture among SBG, its subsidiaries (the guarantors) and the trustee. Net costs associated with the offering totaled $3.4 million. These costs were capitalized and are being amortized to interest expense over the term of the 2002 Notes.

On July 15, 2002, we closed on a new Bank Credit Agreement (the 2002 Bank Credit Agreement), allowing us more operating capacity and liquidity. The proceeds of the 2002 Bank Credit Agreement were used to pay off the 1998 Bank Credit Agreement. The 2002 Bank Credit Agreement consists of a $225.0 million Revolving Credit Facility maturing on June 30, 2008 and a $375.0 million Term Loan B Facility repayable in consecutive quarterly installments, amortizing 0.25% per quarter, commencing June 30, 2004 and continuing through its maturity on December 31, 2009. The applicable interest rate on the Revolving Credit Facility is either LIBOR plus 1.25% to 2.25% or the alternative base rate plus 0.25% to 1.25% adjusted quarterly based on the ratio of total debt, net of cash, to four quarters' trailing earnings before interest, taxes, depreciation and amortization, as adjusted in accordance with

the 2002 Bank Credit Agreement. The applicable interest rate on the Term Loan B Facility is either LIBOR plus 2.25% or the alternative base rate plus 1.25%.

On November 8, 2002, the Company completed an add-on issuance of $125.0 million aggregate principal amount to the 8% Senior Subordinated Notes due 2012 at a premium of $0.6 million generating net proceeds of $125.8 million. We used the net proceeds together with available cash on hand and a draw down of $10.0 million on the revolving line of credit under the 2002 Bank Credit Agreement, to redeem our existing 9% Senior Subordinated Notes including an early redemption premium of $9.0 million and accrued interest of $7.2 million.

On December 31, 2002, we completed an add-on issuance of $125.0 million aggregate principal amount of 8% Senior Subordinated Notes due 2012 at a premium of $3.8 million. We received net proceeds of approximately $130.4 million from the sale of the notes. We used the net proceeds together with additional funding from our term loan of $125 million, a draw down of $7.0 million on the revolving line of credit under the 2002 Bank Credit Agreement and available cash on hand of $0.2 million to redeem our existing 8.75% Senior Subordinated Notes due 2007, including an early redemption premium of $10.9 million and costs associated with the offering totalling $1.7 million.

The guarantors of the registered securities above are 100% owned by the parent and are comprised of certain of our subsidiaries whose guarantees are full and unconditional and joint and several. Those subsidiaries who are not guarantors of the securities (non-guarantors) are minor and our parent company has no independent assets or operations as defined by SEC rules. Neither the parent nor the guarantors have any significant restrictions on their ability to obtain funds from their subsidiaries in the form of dividends or loans.

On April 19, 2002, we filed a $350.0 million universal shelf registration statement with the Securities and Exchange Commission which will permit us to offer and sell various types of securities from time to time. Offered securities may include common stock, debt securities, preferred stock, depositary shares or any combination thereof in amounts, prices and on terms to be announced when the securities are offered. If we determine it is in our best interest to offer any such securities, we intend to use the proceeds for general corporate purposes, including, but not limited to, the reduction or refinancing of debt or other obligations, acquisitions, capital expenditures, and working capital.

The weighted average interest rates for outstanding indebtedness relating to our Bank Credit Agreement during 2001 and as of December 31, 2001 were 6.57% and 5.85%, respectively. The weighted average interest rates of our Bank Credit Agreement during 2002 and as of December 31, 2002 were 5.14% and 4.12%, respectively. During 2002, the interest expense relating to the Bank Credit Agreements was $27.9 million.

Net cash flows from operating activities increased to $149.6 million for the year ended December 31, 2002 from $58.9 million for the year ended December 31, 2001. We received income tax refunds net of payments of $44.2 million for the year ended December 31, 2002 as compared to income tax payments, net of refunds of $1.2 million for the year ended December 31, 2001. We made interest payments on outstanding indebtedness and payments for subsidiary trust minority interest expense totaling $142.9 million for the year ended December 31, 2002 as compared to $173.6 million for the year ended December 31, 2001. Program rights payments increased to $106.3 million for the year ended December 31, 2002 from $102.3 million for the year ended December 31, 2001 or 3.9%. This increase in program rights payments was comprised of $8.7 million related to an increase in programming costs on a same station basis, offset by a decrease in payments related to the disposition of WTTV-TV. This increase in program rights payments resulted from our investment to upgrade our television programming.

Net cash flows from investing activities were $52.8 million for the year ended December 31, 2002 as compared to net cash flows used in investing activities of $33.3 million for the year ended

December 31, 2001. This increase in net cash flows used in investing activities was primarily due to the sale of WTTV broadcast assets and repayments of notes receivable, offset by payments relating to the acquisition of broadcast assets, property and equipment expenditures and equity investments. For the year ended December 31, 2002, we received proceeds of $124.5 million from the sale of WTTV-TV and $0.7 million related to the sale of broadcast assets. During 2002, we made payments for property and equipment of $62.9 million of which $49.6 million, related to digital conversion costs.

During the year ended December 31, 2002, we made cash payments of $21.2 million for the acquisition of broadcast assets and $25.8 million for the purchase of equity investments. Further discussion related to these acquisitions can be found in Notes 1 and 12 in the Notes to Consolidated Financial Statements. We funded these acquisitions using cash provided by operating activities and borrowings under our Revolving Credit Facility.

For 2003, we anticipate to incur approximately $92.0 million of capital expenditures, of which $50.0 million relates to the completion of our digital television roll-out, approximately $10.0 million for improvements and $32.0 milllion for the news expansion program. In addition, we anticipate that future requirements for capital expenditures will include capital expenditures incurred during the ordinary course of business and additional strategic station acquisitions and equity investments if suitable investments can be identified on acceptable terms. We expect to fund such capital expenditures with cash generated from operating activities and funding from our Revolving Credit Facility or issuance of securities pursuant to our universal shelf-registration statement described above.

Net cash flows used in financing activities decreased to $229.2 million for the year ended December 31, 2002 from net cash flows from financing activities of $2.4 million for the year ended December 31, 2001. During the year ended December 31, 2002, we repaid $1.5 billion under the Term Loan Facility and utilized borrowings under the Revolving Credit Facility of $1.3 billion. During the year ended December 31, 2002, we received $21.8 million related to the termination of two of our derivative instruments. During the year ended December 31, 2002, we repaid a net $229.5 million of indebtedness, whereas in the comparable period in 2001, we borrowed a net $43.0 million, offset by repurchases of Class A common stock of $4.4 million and payment of an equity put option premium of $7.7 million during 2001. For the year ended December 31, 2002, we paid $10.4 million of quarterly dividends on our Series D Preferred Stock and $23.3 million of distributions related to HYTOPS and we expect to incur these payments in each of our future quarters. We expect to fund these dividends and distributions with cash generated from operating activities and borrowings under our 2002 Bank Credit Agreement and Revolving Credit Facility.

We closed on the sale of four radio stations in Kansas City, Missouri in July 2000 for a purchase price of $126.6 million. In October 2000, we closed on the sale of our radio stations in the St. Louis market for a purchase price of $220.0 million and on the purchase of the stock of Grant Television, Inc., including the non-license assets of WNYO-TV in Buffalo, New York together with a $3.2 million note receivable issued by Sinclair that holds the license assets, for a purchase price of $48.0 million. In November 2000, we closed on the sale of our radio station in Wilkes-Barre, Pennsylvania for a purchase price of $0.6 million. These transactions generated net after-tax proceeds of approximately $229.0 million.

As a result of adopting SFAS No. 142, during the first quarter 2002, we recorded an impairment charge of $566.4 million related to our broadcast licenses and goodwill reflected as a cumulative effect of a change in accounting principle on our consolidated statement of operations, net of the related tax benefit of $30.4 million. Without this charge, our net loss available to stockholders in the first quarter of 2002 would have been $3.9 million. This was a non-cash charge which had no effect on our liquidity or capital resources currently or prospectively. (See "Note 1, Summary of Significant Accounting Policies, Recent Accounting Pronouncements" in the Notes to Consolidated Financial Statements.)

Income Taxes

The income tax provision from continuing operations increased to $1.4 million for the year ended December 31, 2002 from a benefit of $51.9 million for the year ended December 31, 2001. For the year ended December 31, 2002, our pre-tax book income from continuing operations was $5.2 million and for the year ended December 31, 2001, our pre-tax book loss from continuing operations was $165.3 million.

As of December 31, 2002, we have a net deferred tax liability of $167.2 million as compared to a net deferred tax liability of $155.5 million as of December 31, 2001. The increase is primarily due to the adoption of SFAS No. 142. Our tax rate changed to a provision in 2002 from a benefit in 2001 because we reported net income in 2002 compared to a net loss in 2001. The effective tax rate from continuing operations decreased to 26.2% from the year ended December 31, 2002 from 31.3% for the year ended December 31, 2001. The decrease is primarily because (prior to the implementation of SFAS No. 142 for 2002) our reported income in 2001 was reduced by amortization of goodwill, which was non-deductible for tax purposes.

In December 2001, the Internal Revenue Service (IRS) completed its examination of our federal income tax returns filed through 1997. As a result of this settlement, our fiscal year 2001 benefit for income taxes reflects a $6.3 million reduction of taxes provided in prior periods. The IRS has initiated an examination of federal tax returns subsequent to 1998. We believe that adequate accruals have been provided for all years.

Indebtedness and Other Commitments

Indebtedness under the bank credit agreement, as amended. As of December 31, 2002, we owed $552.0 million under the bank credit agreement, as amended, and had a $173.0 million remaining balance available.

Indebtedness under notes. We have issued and outstanding two series of senior subordinated notes with aggregate principal amount issued and outstanding of $860.0 million.

Obligations under high yield trust offered preferred securities (HYTOPS). Sinclair Capital, a subsidiary trust of Sinclair, has issued $200.0 million aggregate liquidation amount of HYTOPS. "Aggregate liquidation amount" means the amount Sinclair Capital must pay to the holders when it redeems the HYTOPS or upon liquidation. Sinclair Capital must redeem the HYTOPS in 2009. We are indirectly liable for the HYTOPS obligations because we issued $206.2 million liquidation amount of series C preferred stock to KDSM, Inc., our wholly owned subsidiary, to support $200.0 million aggregate principal amount of $11^5/_8$% notes that KDSM, Inc. issued to Sinclair Capital to support the HYTOPS.

Series D convertible exchangeable preferred stock. We have issued 3,450,000 shares of series D convertible exchangeable preferred stock with an aggregate liquidation preference of approximately $172.5 million. The liquidation preference means we would be required to pay the holders of series D convertible exchangeable preferred stock $172.5 million before we paid holders of common stock (or any other stock that is junior to the series D convertible exchangeable preferred stock) in any liquidation of Sinclair. We are not obligated to buy back or retire the series D convertible exchangeable preferred stock, but may do so at our option at a conversion rate of $22.8125 per share. In some circumstances, we may also exchange the series D convertible exchangeable preferred stock for 6% subordinated debentures due 2012 with an aggregate principal amount of $172.5 million.

Program contracts payable and programming commitments. Total current and long-term program contracts payable at December 31, 2002 were $121.4 million and $124.7 million, respectively. In

addition, we enter into commitments to purchase future programming. Under these commitments, we were obligated on December 31, 2002 to make future payments totaling $59.9 million.

Other. Our commitments also include capital leases, operating leases, sports programming, personnel contracts and other liabilities. The amount of these commitments may be material.

Seasonality/Cyclicality

Our results usually are subject to seasonal fluctuations, which usually cause fourth quarter operating income to be greater than first, second and third quarter operating income. This seasonality is primarily attributable to increased expenditures by advertisers in anticipation of holiday season spending and an increase in viewership during this period. In addition, revenues from political advertising and the Olympics are higher in even numbered years.

Summary Disclosures about Contractual Cash Obligations and Commercial Commitments

The following tables reflect a summary of our contractual cash obligations and other commercial commitments as of December 31, 2002:

	Payments Due by Year				
	2003	2004	2005	2006 and thereafter	Total
	(amounts in thousands)				
Notes payable, capital leases, and commercial bank financing(1)	$ 50,683	$ 54,450	$ 55,844	$ 1,841,554	$ 2,002,531
Notes and capital leases payable to affiliates	6,602	6,643	7,580	33,844	54,669
HYTOPS	23,250	23,250	23,250	274,594	344,344
Fixed rate derivative instrument	34,213	34,213	34,213	14,622	117,261
Operating leases	4,134	3,249	2,839	12,490	22,712
Employment contracts	6,965	2,367	450	42	9,824
Film liability active	121,396	66,530	45,852	12,276	246,054
Film liability future(2)	6,457	15,469	9,609	28,377	59,912
Programming services	18,978	8,814	2,914	1,439	32,145
Maintenance and support	4,600	2,343	1,526	916	9,385
Other operating contracts	1,900	1,045	934	3,125	7,004
Total contractual cash obligations	$ 279,178	$ 218,373	$ 185,011	$ 2,223,279	$ 2,905,841

	2003	2004	2005	2006 and thereafter	Total Amounts Committed
	(amounts in thousands)				
Other Commercial Commitments					
Letters of credit	$ 82	$ 82	$ 82	$ 817	$ 1,063
Guarantees	115	119	122	31	387
Investments(3)	10,015				10,015
Network affiliation agreements	12,041	12,358	6,972	2,847	34,218
Purchase options(4)			13,250	9,000	22,250
LMA payments(5)	5,589	5,589	3,471	5,258	19,907
Total other commercial commitments	$ 27,842	$ 18,148	$ 23,897	$ 17,953	$ 87,840

(1) Includes interest on fixed rate debt.

(2) Future film liabilities reflect a license agreement for program material that is not yet available for its first showing or telecast. Per SFAS No. 63, *Financial Reporting for Broadcasters*, an asset and a liability for the rights acquired and obligations incurred under a license agreement are reported on

the balance sheet when the cost of each program is known or reasonably determinable, the program material has been accepted by the licensee in accordance with the conditions of the license agreement and the program is available for its first showing or telecast.

(3) Commitments to contribute capital to Allegiance Capital, LP and Sterling Ventures Partners, LP.

(4) We have entered into an agreement with a third party, whereby the third party may require us to purchase certain license and non-license broadcast assets at the option of the third party, no earlier than July 1, 2005. The contractual commitment for 2006 and beyond represents the increase in purchase option price should the exercise occur in 2006 or 2007.

(5) Certain LMAs require us to reimburse the licensee owner their operating costs. This amount will vary each month and, accordingly, these amounts were estimated through the date of LMA expiration based on historical cost experience.

Risk Factors

We cannot identify nor can we control all circumstances that could occur in the future that may adversely affect our business and results of operations. Some of the circumstances that may occur and may impair our business are described below. If any of the following circumstances were to occur, our business could be materially adversely affected.

The Iraq War resulted in a decline in advertising revenues and negatively impacted our operating results. Future conflicts may have a similar effect.

The war in Iraq resulted in a reduction in advertising revenues as a result of uninterrupted news coverage and general economic uncertainty. During the first quarter 2003, we experienced $2.2 million in advertiser cancellations and preemptions. We cannot determine how long this reduction will last. The reduction has, however, resulted in lower earnings than we would have experienced without this disruption. If the United States becomes engaged in similar conflicts in the future, they may have a similar adverse impact on our 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 $1,552.0 million) compared to stockholders' equity of $211.2 million. Our relatively high level of debt poses the following risks to you and to Sinclair, particularly in periods of declining revenues:

- We use a significant portion of our cash flow to pay principal and interest on our outstanding debt and to pay dividends on preferred stock, limiting the amount available for working capital, capital expenditures and other general corporate purposes.
- Our lenders may not be as willing to lend additional amounts to us for future working capital needs, additional acquisitions, or other purposes.
- The interest rate under the bank credit agreement, as amended, is a floating rate, and will increase if general interest rates increase. This will reduce the funds available to repay the exchange notes and our other debt and for operations and future business opportunities and will make us more vulnerable to the consequences of our leveraged capital structure.
- We may be more vulnerable to adverse economic conditions than less leveraged competitors and thus less able to withstand competitive pressures.
- If our cash flow were inadequate to make interest and principal payments, we might have to refinance our indebtedness or sell one or more of our stations to reduce debt service obligations.

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

We may be able to incur significantly more debt in the future, which will increase each of the foregoing risks related to our indebtedness.

At December 31, 2002, we had an additional $173.0 million available (subject to certain borrowing conditions) for additional borrowings under the bank credit agreement. In addition, under the terms of our debt instruments, we may be able to incur substantial additional indebtedness in the future, including additional senior debt and in some cases secured debt. Provided we meet certain financial and other covenants, the terms of the indenture governing our outstanding notes do not prohibit us from incurring such additional indebtedness. If we incur additional indebtedness, the risks described above relating to having substantial debt could intensify.

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

- the health of the economy in the areas where our stations are located and in the nation as a whole;
- the popularity of our programming;
- changes in the makeup of the population in the areas where our stations are located;
- pricing fluctuations in local and national advertising;
- the activities of our competitors, including increased competition from other forms of advertising-based mediums, particularly network, cable television, direct satellite television, internet and radio;
- the decreased demand for political advertising in non-election years; and
- other factors that may be beyond our control.

As a result of the foregoing factors, our advertising revenue has decreased significantly from levels prior to 2001 and our revenues and earnings have been, and may continue to be, adversely affected.

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

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 for us to repay our indebtedness or decrease the value of our business. These restrictions and tests include the following:

- Restrictions on additional debt,

Restrictions on our ability to pledge our assets as security for our indebtedness,

Restrictions on payment of dividends, the repurchase of stock and other payments relating to capital stock,

Restrictions on some sales of assets and the use of proceeds of asset sales,

Restrictions on mergers and other acquisitions, satisfaction of conditions for acquisitions, and a limit on the total amount of acquisitions without consent of bank lenders,

Restrictions on the type of businesses we and our subsidiaries may be in,

Restrictions on the type and amounts of investments we and our subsidiaries may make, and

Financial ratio and condition tests including the ratio of earnings before interest, taxes, depreciation and amortization, as adjusted (adjusted EBITDA) to total interest expense, the ratio of adjusted EBITDA to certain of our fixed expenses, and the ratio of indebtedness to adjusted EBITDA.

Future financing arrangements may contain additional restrictions and tests. All of these restrictive covenants may restrict 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 continues to soften 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 happened, we could be forced to sell assets or take other action that would reduce significantly the value of our securities and we may not have sufficient assets or funds to pay our debt obligations.

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

Some of our officers, directors and majority stockholders 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 even when 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 stockholders to the detriment of our other securityholders. David D. Smith, Frederick G. Smith, and J. Duncan Smith are each 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 stockholders. The Smiths own a television station which is programmed pursuant to an LMA with us. The Smiths also own businesses that lease real property and tower space to us, buy advertising time from us, and engage in other transactions with us. In addition, Cunningham Broadcasting Corporation (formerly Glencairn, Ltd.) is a corporation owned by Carolyn C. Smith, the mother of the controlling stockholders and certain trusts established by Carolyn C. Smith (which own non-voting stock). Cunningham holds the licenses for certain television stations that we program under LMAs. We have an option to acquire the equity interests in Cunningham for a price based on the purchase price of Cunningham's stations. We have agreed that if we exercise the option we would either pay any liability under Cunningham's bank credit agreement or take any equity interests subject to the security interest held by the lender under that agreement. In addition, David D. Smith, our President and Chief Executive Officer, has a controlling interest in and is a member of the Board of Directors of Summa Holdings, Ltd., a company in which we hold a 17.5% equity interest and exercise significant influence over Summa by virtue of David D. Smith's board seat and our board seat. See " Our recent investments in other businesses may not deliver the value we ascribe to them on our financial statements or reach our strategic objectives."

Maryland law and our financing agreements limit the extent to which our officers, directors and majority stockholders may transact business with us and pursue business opportunities that Sinclair might pursue. These limitations do not, however, prohibit all such transactions.

The Smiths exercise control over all matters submitted to a stockholder vote, and may have interests that differ from yours. 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 almost 90% of the vote and therefore control the outcome of most matters submitted to a vote of stockholders, including, but not limited to, electing directors, adopting amendments to our certificate of incorporation and approving corporate transactions. The Smiths hold class B common stock, which generally has 10 votes per share. Our class A common stock has only one vote per share. Our other series of preferred stock generally do not have voting rights.

Circumstances may occur in which the interests of the Smiths, as the controlling equity holders, could be in conflict with the interests of the holders of the exchange notes and the Smiths would have the ability to cause Sinclair 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 the holders of the exchange notes. See "Security Ownership of Certain Beneficial Owners."

Certain features of our capital structure that discourage others from attempting to acquire Sinclair may prevent our securityholders from receiving a premium on their securities or result in a lower price for our securities.

The control the Smiths have over stockholder votes may discourage other companies from trying to acquire us. In addition, our board of directors can issue additional shares of preferred stock with rights that might further discourage other companies from trying to acquire us. Anyone trying to acquire us would likely offer to pay more for shares of class A common stock than the amount those shares were trading for in market trades at the time of the offer. If the voting rights of the Smiths or the right to issue preferred stock discourage such takeover attempts, stockholders may be denied the opportunity to receive such a premium. The general level of prices for class A common stock might also be lower than it would be if these deterrents to takeovers did not exist.

We must purchase television programming in advance and may therefore incur programming costs that we cannot cover with revenue from the programs. If this happens, we could experience losses that make our securities less valuable.

One of our most significant costs is television programming and 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 produce it ourselves, we also have little control over the costs of programming. We usually must purchase programming several years in advance, and may have to commit to purchase more than one year's worth of programming. Finally, we may replace programs that are doing poorly before we have recaptured any significant portion of the costs we incurred, or accounted fully for the costs on our books for financial reporting purposes. 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 affiliation agreements or which provide us programming. Each of our affiliation groups experienced revenue increases in 2002, except for UPN affiliates, but this trend may not continue in the future.

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

Our affiliation agreements with three ABC stations have expired. In general, we continue to operate these stations as ABC affiliates and we do not believe ABC has any current plans to terminate the affiliation of any of these stations although we cannot assure you that ABC will not do so.

The non-renewal or termination of one or more of these or any of our other network affiliation agreements would result in us no longer 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.

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

The television industry is highly competitive and this competition can draw viewers and advertisers from our stations, which reduces our revenue, or require us to pay more for programming, which increases our costs. We face intense competition from the following:

New technology and the subdivision of markets. Cable providers and direct broadcast satellite companies are developing new techniques that allow 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. Lowering the cost of creating channels may also encourage new competitors to enter our markets and compete with us for advertising revenue. In addition, emerging technologies that will allow viewers to digitally record and play back television programming may decrease viewership of commercials and, as a result, lower our advertising revenues.

In-market competition. We also face more conventional competition from rivals that may be larger and have greater resources than we have. These include:

other local free over-the-air broadcast stations, and

other media, such as newspapers, periodicals and cable systems.

Deregulation. The Telecommunications Act of 1996 and subsequent actions by the FCC 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 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.

The phased introduction of digital television will increase our costs, due to increased equipment and operational costs, and could have a variety of other adverse effects on our business.

The FCC has adopted rules for implementing digital (including high definition) television ("DTV") service in the United States. Under the rules, our stations are required to begin DTV operations over a transition period. In addition, we expect that the FCC will reclaim our non-digital channels at the end of the transition period. We believe that the transition to DTV may have the following effects on us, which could increase our costs or reduce our revenue.

Conversion and programming costs. We expect to incur approximately $150.0 million in costs, of which we have incurred $98.0 million through December 31, 2002, to convert our stations from the current analog format to digital format. However, our costs may be higher than this estimate. We expect to continue to incur significant costs to convert our stations to digital format. In addition, we may incur additional costs to obtain programming for the additional channels made available by digital technology and higher utilities costs as a result of converting to digital operations. Increased revenues from the additional channels may not make up for the conversion cost and additional programming expenses.

Possible Sanctions. The FCC has adopted a series of graduated sanctions to be imposed upon licensees who do not meet the FCC's DTV build-out schedule. Some

of our stations could face monetary fines and possible loss of any digital construction permits if they cannot comply with the DTV build-out schedule.

Reclamation of analog channels. Congress directed the FCC to auction analog channels when the current holders convert to digital transmission. In addition, the FCC has reallocated a portion of the spectrum band to permit both wireless services and to allow new broadcast operations. If the channels are owned or programmed by our competitors, they may exert increased competitive pressure on our operations.

Signal quality issues. Our signal quality under digital transmission may be lower relative to our competitors, and we may lose viewers and thereby lose revenue, or be forced to rely on cable television or other alternative means of transmission with higher costs to deliver our digital signals to all of the viewers we are able to reach with our current analog signals.

Digital must carry. If the FCC does not require cable companies to carry both analog and digital signals of stations during the digital transition period, cable customers in our broadcast markets may not receive our digital signal, which could

negatively impact our stations by reducing revenue.

Subscription fees. The FCC has determined to assess a fee in the amount of 5% of gross revenues on digital television subscription services. If we provide subscription services and are unable to pass this cost through to our subscribers, this fee will reduce our earnings from any digital television subscription services we implement in the future.

Given this climate of market uncertainty and regulatory change, we cannot be sure what impact the FCC's actions might have on our plans and results in the area of digital television. See "Business Federal Regulation of Television Broadcasting".

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, or assign, or modify a license, purchase a new station, or transfer the control of one of our subsidiaries that holds a license. Our FCC licenses and those of the stations we program pursuant to LMAs 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. If licenses were not renewed or acquisitions approved, we may lose revenue that we otherwise could have earned.

In addition, Congress and the FCC currently have under consideration, and may in the future adopt, new laws, regulations and policies regarding a wide variety of matters (including technological changes) that could, directly or indirectly, materially and adversely affect the operation and ownership of our broadcast properties. New federal legislation may limit our ability to conduct our business in ways that we believe would be advantageous and may thereby negatively affect our operating results.

The FCC's multiple ownership rules limit our ability to operate multiple television stations 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.

General limitations.

The FCC's ownership rules limit us from having "attributable interests" in television stations that reach more than 35% (using a calculation method specified by the FCC) of all television households in the U.S. We reach approximately 24% of U.S. television households on an actual basis or, under the

FCC's current method for calculating this limit, approximately 14%. Our ability to expand through the acquisition of additional stations in new markets is limited by these rules and this may prevent us from engaging in acquisitions that could increase our revenue or our operating margins.

Changes in the rules on television ownership and 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 program segments on the other licensee's station subject to ultimate editorial and other controls being exercised by the latter licensee. We believe these arrangements allow us to increase operating margins and enhance profitability.

Under the 1999 duopoly rules enacted by the FCC, we could be required to terminate or modify some of our LMAs. We currently program 11 television stations pursuant to LMAs. Although these rules are currently under review by the FCC, we cannot determine how the rules may be changed and whether we will ultimately be required to terminate or modify our LMAs.

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

Losses on investments. As part of our LMA arrangements, we own the non-license assets used by the stations with which we have LMAs. If LMA arrangements are no longer permitted, we would be forced to sell these assets, or find another use for them. If LMAs are prohibited, the market for such assets may not be as good as when we purchased them and we would need to sell the assets to the owner or a purchaser of the related license assets. Therefore, we cannot be certain we will recoup our 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, if we elect not to extend the term of the LMAs, we may be forced to pay termination penalties under the terms of some of our LMAs. Any such termination penalty could be material.

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 the 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.

These preemption and termination rights cause us some uncertainty that we will be able to air all of the programming that we have purchased, and therefore uncertainty about the advertising revenues 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 the license.

Any one of these scenarios might result in a reduction of our cash flow and an increase in our operating costs or margins, especially the revocation of or denial of renewal of a license. In addition, penalties might also affect our qualifications to hold FCC licenses, and thus place those licenses at risk.

We have lost money in three of the last five years, and may continue to do so indefinitely, which may impair our ability to pay our debt obligations.

We have suffered net losses in three of the last five years. In 1999 and 2000, we reported earnings, but this was largely due to a gain on the sale of our radio stations. Our losses are due to a variety of cash and non-cash expenses which may or may not recur. Our net losses may therefore continue indefinitely and as a result, we may not have sufficient funds to pay our obligations under the exchange notes or to repurchase the exchange notes.

Our investments in other businesses may not deliver the value we ascribe to them on our financial statements or reach our strategic objectives.

Our strategy includes investing in and working with other businesses, including technology and internet-related businesses. In pursuit of this strategy, we made several investments in technology and internet-related businesses in 1999 and 2000. The stock prices of publicly-traded technology and internet-related companies generally declined dramatically since 2000, and specific businesses we have invested in have experienced substantial impairment of their value. As a result, we have written-off a substantial portion of our investments in these businesses. These write-offs include all of our $10.1 million investment in Acrodyne Communications, Inc., a manufacturer of television transmitters and other broadcast equipment. We cannot assure you that these investments will be worth the amount we currently ascribe to them on our financial statements, or that we will be able to develop services that are profitable for Sinclair or the businesses in which we have invested. If the businesses in which we have invested fail to succeed, we may lose as much as all of our remaining investment in the businesses. We may also spend additional funds and devote additional resources to these businesses (we recently invested an additional $1.0 million in Acrodyne), and these additional investments may also be lost.

In addition, we recently invested $20.0 million, representing approximately a 17.5% equity interest, in Summa Holdings, Ltd., a holding company that owns automobile dealerships, retail tire franchises and a leasing company, in which David D. Smith has a controlling interest. In contemplating the investment, we considered the historic and potential returns on equity. Additionally, under the terms of the agreement, Summa is committed to maintaining a certain amount of advertising with our stations. We will not be involved in the day-to-day management or operations of Summa, however, we will hold one board seat. There can be no assurances as to the future value of our investment in Summa. We may also invest additional funds and devote additional resources to Summa and these additional investments may also be lost.

ITEM 14. CONTROLS AND PROCEDURES

Within 90 days prior to the date of this report, we carried out an evaluation, under the supervision and with the participation of our Company's management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Exchange Act Rule 13a-15. In designing and evaluating the disclosure controls and procedures, we and our management recognize that any controls and procedures, no matter how well designed and operated, can only provide reasonable assurance of achieving the desired control objective. Based on our evaluation, our Chief Executive Office and Chief Financial Officer concluded that our disclosure controls and procedures provide us with a reasonable level of assurance of reaching our desired disclosure control objectives and are effective in timely alerting them to material information required to be included in our periodic SEC reports.

In addition, we have reviewed our internal controls and have seen no significant changes in our internal controls or in other factors that could significantly affect the disclosure controls, including any corrective actions with regard to significant deficiencies and material weaknesses.

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(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.

Sinclair Broadcast Group, Inc. Financial Statements:	
Report of Independent Public Accountants	F-2
Consolidated Balance Sheets as of December 31, 2002 and 2001	F-3
Consolidated Statements of Operations for the Years Ended December 31, 2002, 2001 and 2000	F-4
Consolidated Statements of Stockholders' Equity for the Years Ended December 31, 2002, 2001 and 2000	F-5
Consolidated Statements of Cash Flows for the Years Ended December 31, 2002, 2001 and 2000	F-8
Notes to Consolidated Financial Statements	F-9
Acrodyne Communications, Inc. Financial Statements:	
Consolidated Balance Sheets as of December 31, 2002 and 2001	F-53
Consolidated Statements of Operations for the Years Ended December 31, 2002 and 2001	F-54
Consolidated Statements of Stockholders' Equity for the Years Ended December 31, 2002 and 2001	
Consolidated Statements of Cash Flows for the Years Ended December 31, 2002, and 2001	F-56
Notes to Consolidated Financial Statements	F-57
Report of Independent Public Accountants	F-76
Consolidated Balance Sheets as of December 31, 2001 and 2000	F-77
Consolidated Statements of Operations for the Years Ended December 31, 2001, and 2000	F-78
Consolidated Statements of Stockholders' Equity for the Years Ended December 31, 2001 and 2000	F-79
Consolidated Statements of Cash Flows for the Years Ended December 31, 2001 and 2000	F-80
Notes to Consolidated Financial Statements	F-81

(a) (2) Financial Statements Schedules

The following financial statements schedules required by this item are submitted on pages S-1 through S-3 of this Report.

Index to Schedules	S-1
Report of Independent Public Accountants	S-2
Schedule II Valuation and Qualifying Accounts	S-3

All other 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 exhibit index in Item 15(c) is incorporated by reference in this report.

(b) Reports on Form 8-K

October 24, 2002	Sinclair Broadcast Group, Inc. Press Release (Dated October 24, 2002) Announcing Private Securities Offering.
November 8, 2002	Sinclair Broadcast Group, Inc. Press Release (Dated November 8, 2002) Sinclair Completes Debt Offering; Announces Redemption Of 9% Notes Due 2007
December 3, 2002	Sinclair Broadcast Group, Inc. Press Release (Dated December 3, 2002) Sinclair Broadcast Group Announces Intent to Issue Securities in a Private Offering
December 16, 2002	Sinclair Broadcast Group, Inc. Press Release (Dated December 16, 2002) Sinclair Broadcast Group Announces Private Securities Offering
December 24, 2002	Sinclair Broadcast Group, Inc. Press Release (Dated December 24, 2002) Sinclair Invests $20 Million in Summa Holdings
December 31, 2002	Sinclair Broadcast Group, Inc. Press Release (Dated December 31, 2002) Sinclair Completes Debt Financings; Tenders and Announces Redemption of 8.75% Notes Due 2007
January 2, 2003	Sinclair Broadcast Group, Inc. Press Release (Dated January 2, 2003) Sinclair Makes $18 Million Deposit on Non-License Assets of WNAB-TV in Nashville
January 24, 2003	Sinclair Broadcast Group, Inc. Press Release (Dated February 24, 2003) Sinclair to Exceed Fourth Quarter Estimates
February 13, 2003	Sinclair Broadcast Group, Inc. Press Release (Dated February 13, 2003) Sinclair Reports Fourth Quarter and Full Year 2002 Results

(c) Exhibits

The following exhibits are filed with this report:

EXHIBIT NO.	EXHIBIT DESCRIPTION
3.1	Amended and Restated Certificate of Incorporation(1)
3.2	By-laws(2)

EXHIBIT NO.	EXHIBIT DESCRIPTION
3.3	Informal Action of the Board of Directors of Sinclair Broadcast Group, Inc., dated March 31, 2003.
4.1	Indenture, dated as of December 9, 1993, among Sinclair Broadcast Group, Inc., its wholly-owned subsidiaries and First Union Nation Bank of North Carolina, as trustee.(2)
4.2	Indenture, dated as of August 28, 1995, among Sinclair Broadcast Group, Inc., its wholly-owned subsidiaries and the United States Trust Company of New York as trustee.(2)
4.3	First Supplemental Indenture, dated as of December 17, 1997, among Sinclair Broadcast Group, Inc., the Guarantors named therein and First Union National Bank, as trustee, including Form of Note.(3)
4.4	Indenture, dated as of December 10, 2001, among Sinclair Broadcast Group, Inc., the Guarantors named therein, and First Union National Bank as trustee.
4.5	Indenture, dated as of March 14, 2002, among Sinclair Broadcast Group, Inc., the Guarantors named therein, and First Union National Bank as trustee.
10.1	Stock Option Agreement, dated April 10, 1996 by and between Sinclair Broadcast Group, Inc. and Barry Baker.(4)
10.2	Termination Agreement by and between Sinclair Broadcast Group, Inc., and Barry Baker, dated February 8, 1999. (6)
10.3	Registration Rights Agreement, dated as of May 31, 1996, by and between Sinclair Broadcast Group Inc. and River City Broadcasting, L.P.(5)
10.4	Letter Agreement, dated August 20, 1996, between Sinclair Broadcast Group, Inc., and River City Broadcasting, L.P. and FOX Broadcasting Company.(7)
10.5	Term Note, dated as of September 30, 1990, in the principal amount of $7,515,000 between Sinclair Broadcast Group, Inc. (as borrower) and Julian S Smith (as lender).(9)
10.6	Replacement Term Note, dated as of September 30, 1990 in the principal amount of $6,700,000 between Sinclair Broadcast Group, Inc. (as borrower) and Carolyn C. Smith (as lender).(2)
10.7	Term Note, dated August 1, 1992 in the principal amount of $900,000 between Frederick G. Smith, David D. Smith, J. Duncan Smith and Robert E. Smith (as borrowers) and Commercial Radio Institute, Inc. (as lender).(8)
10.8	Promissory Note, dated as of December 28, 1986 in the principal amount of $6,421,483.53 between Sinclair Broadcast Group, Inc. (as maker) and Frederick H. Himes, B. Stanley Resnick and Edward A. Johnson (as representatives for the holders).(8)
10.9	Restatement of Stock Redemption Agreement by and among Sinclair Broadcast Group, Inc. and Chesapeake Television, Inc., et al., dated June 19, 1990.(8)

10.10	Corporate Guaranty Agreement, dated as of September 30, 1990 by Chesapeake Television, Inc., Commercial Radio, Inc., Channel 63, Inc. and WTTE, Channel 28, Inc. (as guarantors) to Julian S. Smith and Carolyn C. Smith (as lenders).(8)
10.11	Security Agreement, dated as of September 30, 1999 among Sinclair Broadcast Group, Inc., Chesapeake Television, Inc., Commercial Radio Institute, Inc., WTTE, Channel 28, Inc. and Channel 63, Inc. (as borrowers and subsidiaries of the borrower) and Julian S. Smith and Carolyn C. Smith (as lenders).(8)
10.12	Term Note, dated as of September 22, 1993, in the principal amount of $1,900,000 between Gerstell Development Limited Partnership (as maker-borrower) and Sinclair Broadcast Group, Inc. (as holder-lender).(8)

10.13	Credit Agreement, dated as of May 28, 1998, by and among Sinclair Broadcast Group, Inc., Certain Subsidiary Guarantors, Certain Lenders, the Chase Manhattan Bank as Administrative Agent, Nations Bank of Texas, N.A. as Documentation Agent and Chase Securities Inc. as Arranger.(1)
10.14	Incentive Stock Option Plan for Designated Participants.(2)
10.15	Incentive Stock Option Plan of Sinclair Broadcast Group, Inc.(2)
10.16	First Amendment to Incentive Stock Option Plan of Sinclair Broadcast Group, Inc., adopted April 10, 1996.(4)
10.17	Second Amendment to Incentive Stock Option Plan of Sinclair Broadcast Group, Inc., adopted May 31, 1996.(4)
10.18	1996 Long Term Incentive Plan of Sinclair Broadcast Group, Inc.(4)
10.19	First Amendment to 1996 Long Term Incentive Plan of Sinclair Broadcast Group, Inc.(10)
10.20	Primary Television Affiliation Agreement, dated as of March 24, 1997 by and between American Broadcasting Companies, Inc., River City Broadcasting, L.P. and Chesapeake Television, Inc.(11)
10.21	Primary Television Affiliation Agreement, dated as of March 24, 1997 by and between American Broadcasting Companies, Inc., River City Broadcasting, L.P. and WPGH, Inc.(11)
10.22	Stock Purchase Agreement by and among the sole stockholders of Montecito Broadcasting Corporation, Montecito Broadcasting Corporation and Sinclair Communications, Inc. dated as of February 3, 1998.(12)
10.23	Agreement and Plan of Merger among Sullivan Broadcasting Company II, Inc., Sinclair Broadcast Group, Inc., and ABRY Partners, Inc. Effective as of February 23, 1998.(11).
10.24	Agreement and Plan of Merger among Sullivan Broadcasting Holdings, Inc., Sinclair Broadcast Group, Inc., and ABRY Partners, Inc. Effective as of February 23, 1998.(11).
10.25	Employment Agreement by and between Sinclair Broadcast Group, Inc. and Frederick G. Smith, dated June 12, 1998.(12)
10.26	Employment Agreement by and between Sinclair Broadcast Group, Inc. and J. Duncan Smith, dated June 12, 1998.(12)

10.27	Employment Agreement by and between Sinclair Broadcast Group, Inc. and David B. Amy, dated September 15, 1998.(12)
10.28	Employment Agreement by and between Sinclair Communications, Inc. and Barry Drake, dated February 21, 1997.(12)
10.29	First Amendment to Employment Agreement, by and between Sinclair Broadcast Group, Inc. and Barry Baker, dated May 1998.(6)
10.30	Purchase Agreement by and between Sinclair Communications, Inc. and STC Broadcasting, Inc. dated as of March 5, 1999.(6)
10.31	Second Modification Agreement dated April 30, 1999 by and between Guy Gannett Communications and Sinclair Communications, Inc., to modify the Purchase Agreement dated September 4, 1998 by and between Guy Gannett Communications and Sinclair Communications Inc., as thereafter amended and modified.(13)
10.32	Asset Purchase Agreement dated August 18, 1999 by and between Sinclair Communications, Inc. and certain of its affiliates named therein and Entercom Communications Corp.(13)
10.33	Asset Purchase Agreement dated August 20, 1999 among Sinclair Communications, Inc., Sinclair Media III, Inc., Sinclair Radio of Kansas City Licensee, LLC and Entercom Communications Corp.(13)
10.34	Amendment to Purchase Agreement, dated March 16, 1999, to amend Purchase Agreement dated as of September 4, 1998 by and between Guy Gannett Communications and Sinclair Communications, Inc.(13)

10.35	Modification Agreement dated April 12, 1999 by and between Guy Gannett Communications and Sinclair Communications, Inc., to modify the Purchase Agreement dated September 4, 1998 by and between Guy Gannett Communications and Sinclair Communications, Inc., as thereafter amended.(13)
10.36	Purchase Agreement dated March 16, 1999, by and between Sinclair Communications, Inc. and STC Broadcasting, Inc.(13)
10.37	Amended and Restated Purchase Agreement dated August 20, 1999 among Sinclair Communications, Inc. and certain of its affiliates named therein and Entercom Communications Corp.(13)
10.38	Asset Purchase Agreement among Sinclair Broadcast Group, Inc. and Sinclair Radio of St. Louis, Inc. and Sinclair Radio of St. Louis Licensee, LLC as Sellers, and Emmis Communications Corporation as Buyer dated June 21, 2000.(14)
10.39	Amendment and Restatement Credit Agreement, dated May 9, 2001.(15)
10.40	Amendment No. 1-1998 Bank Credit Agreement Amendment dated October 31, 2001.(16)
10.41	Asset Purchase Agreement dated April 18, 2002 among Sinclair Broadcast Group, Inc., Sinclair Communications, Inc., Sinclair Media II, Inc., and SCI-Indiana Licensee, LLC, as sellers and Tribune Broadcasting Company as buyer.(17)
10.42	Credit Agreement dated as of July 15, 2002, between Sinclair Broadcast Group, Inc., the Subsidiary Guarantors Party Hereto, the Lenders Party Hereto, JP Morgan Chase Bank, as Administrative Agent.(18)

10.43	Registration Rights Agreement, dated as of November 8, 2002, by and among Sinclair Broadcast Group, Inc., the Guarantors, and Deutsche Bank Securities Inc., Wachovia Securities, Inc., J.P. Morgan Securities Inc., BNP Paribas Securities Corp., LehmanBrothers Inc., and UBS Warburg LLC.(19)
10.44	Registration Rights Agreement, dated as of December 31, 2002, by and among Sinclair Broadcast Group, Inc., the Guarantors, and J.P. Morgan Securities Inc., Deutsche Bank Securities Inc., Wachovia Securities, Inc. and UBS Warburg LLC.(19)
10.45	Series A-1 Incremental Loan Amendment dated as of December 31, 2002 to the Credit Agreement, between Sinclair Broadcast Group, Inc., the Series A-1 Incremental Lenders party hereto and to said Credit Agreement (including each Person that becomes a Series A-1 Incremental Lender pursuant to a Lender Addendum), and JPMorgan Chase Bank, as Administrative Agent.(19)
10.46	Subscription Agreement, effective as of January 1, 2003 by and between Acrodyne Communications, Inc., a Delaware corporation, and Sinclair Broadcast Group, Inc., a Maryland corporation.(20)
10.47	Modification Agreement dated as of January 2, 2003, by and among Nashville Broadcasting Limited Partnership, a Tennessee limited partnership, Nashville License Holdings, LLC, a Delaware limited liability company, and Sinclair Television of Nashville, Inc., a Tennessee corporation.(19)
10.48	Series A Preferred Stock Purchase Agreement dated as of December 23, 2002 is entered into by and among Summa Holdings, Ltd., a Maryland corporation, and Sinclair Broadcast Group, Inc., a Maryland corporation.(19)
10.49	Employment Agreement dated as of February 28, 2000, between Sinclair Communications, Inc., a Maryland corporation, and Barry M. Faber.(19)
10.50	Employment Agreement dated as of February 21, 1997, between Sinclair Communications, Inc., a Maryland corporation, and Steven Marks.(19)
10.51	Form of Fox Broadcasting Company Station Affiliation Agreement.(19)
11	Statement re computation of per share earnings(19)

12	Computation of Ratio of Earnings to Fixed Charges(19)
21	Subsidiaries of the Registrant(19)
23	Consent of Independent Public Accountants (Sinclair Broadcast Group, Inc.) (19)
99.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, executed by the CEO.
99.2	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, executed by the CFO.

(1) Incorporated by reference from Sinclair's Report on Form 10-Q for the quarter ended June 30, 1998

(2) Incorporated by reference from Sinclair's Registration Statement on Form S-1, No. 33-90682

(3) Incorporated by reference from Sinclair's Current Report on Form 8-K, dated as of December 16, 1997.

(4) Incorporated by reference from Sinclair's Report on Form 10-K for the year ended December 31, 1996.

(5) Incorporated by reference from Sinclair's Report on Form 10-Q for the quarter ended June 30, 1996.

(6) Incorporated by reference from Sinclair's Report on Form 10-K for the year ended December 31, 1998.

(7) Incorporated by reference from Sinclair's Report on Form 10-Q for the quarter ended September 30, 1996.

(8) Incorporated by reference from Sinclair's Registration Statement on Form S-1, No. 33-69482.

(9) Incorporated by reference from Sinclair's Report on Form 10-K for the year ended December 31, 1995.

(10) Incorporated by reference from Sinclair's Proxy Statement for the 1998 Annual Meeting filed on Schedule 14A.

(11) Incorporated by reference from Sinclair's Report on Form 10-K for the year ended December 31, 1997

(12) Incorporated by reference from Sinclair's Report on Form 10-Q for the quarter ended September 30, 1998

(13) Incorporated by reference from Sinclair's Report on Form 10-Q for the quarter ended September 20, 1999.

(14) Incorporated by reference from Sinclair's Report on Form 10-K for the year ended December 31, 2000.

(15)

Incorporated by reference from Sinclair's Report on Form 8-K filed on September 26, 2001.

(16)
Incorporated by reference from Sinclair's Report on Form 10-Q for the quarter ended September 30, 2001.

(17)
Incorporated by reference from Sinclair's Report on Form 10-Q for the quarter ended March 31, 2002.

(18)
Incorporated by reference from Sinclair's Report on Form 10-Q for the quarter ended June 30, 2002.

(19)
Previously filed.

(20)
Incorporated by reference from Sinclair's report on Schedule 13D, dated January 8, 2003

(d) Financial Statements Schedules

The financial statement schedules required by this Item are listed under Item 15 (a) (2).

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/A to be signed on its behalf by the undersigned, thereunto duly authorized on this 9th day of May 2003.

SINCLAIR BROADCAST GROUP, INC.

By: /s/ David D. Smith

David D. Smith
Chief Executive Officer

I, David D. Smith, certify that:

1.
I have reviewed this annual report on Form 10-K/A of Sinclair Broadcast Group, Inc.;

2.
Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3.
Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4.
The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

A)

designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

B)

evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the Evaluation Date); and

C)

presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5.

The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

A)

all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

B)

any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6.

The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weakness.

Date: May 9, 2003

/s/ DAVID D. SMITH

Signature: David D. Smith,
President & Chief Executive Officer

I, David B. Amy, certify that:

1.

I have reviewed this annual report on Form 10-K/A of Sinclair Broadcast Group, Inc.;

2.

Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3.

Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4.

The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

A)

designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

B)

evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the Evaluation Date); and

C)

presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5.

The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

A)

all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

B)

any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6.

The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weakness.

Date: May 9, 2003

/s/ DAVID B. AMY

Signature: David B. Amy,
Executive Vice President & Chief Financial Officer

SINCLAIR BROADCAST GROUP, INC. AND SUBSIDIARIES

INDEX TO FINANCIAL STATEMENTS

SINCLAIR BROADCAST GROUP, INC. AND SUBSIDIARIES	
Report of Independent Public Accountants	F-2
Consolidated Balance Sheets as of December 31, 2002 and 2001	F-3
Consolidated Statements of Operations for the Years Ended December 31, 2002, 2001 and 2000	F-4
Consolidated Statements of Stockholders' Equity for the Years Ended December 31, 2002, 2001 and 2000	F-5
Consolidated Statements of Cash Flows for the Years Ended December 31, 2002, 2001 and 2000	F-8
Notes to Consolidated Financial Statements	F-9

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Stockholders of
Sinclair Broadcast Group, Inc.:

We have audited the accompanying consolidated balance sheets of Sinclair Broadcast Group, Inc. (a Maryland corporation) and subsidiaries as of December 31, 2002 and 2001, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2002. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Sinclair Broadcast Group, Inc. and subsidiaries as of December 31, 2002 and 2001, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2002, in conformity with accounting principles generally accepted in the United States.

As discussed in note 1 to the notes to the consolidated financial statements, during the year ended December 31, 2002, the Company changed the manner in which it accounts for goodwill and other intangible assets upon adoption of Statement of Financial Accounting Standard No. 142, "Goodwill and Other Intangible Assets" on January 1, 2002.

As discussed in note 8 to the notes to the consolidated financial statements, the Company changed its method of accounting for derivative transactions effective January 1, 2001.

/s/ ERNST & YOUNG LLP

Baltimore, Maryland
February 10, 2003

SINCLAIR BROADCAST GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(in thousands)

	As of December 31,	
	2002	**2001**
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 5,327	$ 32,063
Accounts receivable, net of allowance for doubtful accounts of $5,946 and $6,222, respectively	147,002	143,811
Current portion of program contract costs	76,472	82,850
Taxes receivable	38,906	44,789

	As of December 31,	
Prepaid expenses and other current assets	20,807	18,050
Deferred barter costs	2,539	3,026
Assets held for sale		128,394
Deferred tax assets	6,001	2,014
Total current assets	297,054	454,997
PROGRAM CONTRACT COSTS, less current portion	51,229	63,167
LOANS TO OFFICERS AND AFFILIATES	1,489	7,916
PROPERTY AND EQUIPMENT, net	337,250	281,651
OTHER ASSETS	91,119	105,894
GOODWILL	1,122,982	1,656,868
BROADCAST LICENSES	429,928	421,914
DEFINITE-LIVED INTANGIBLE ASSETS, net	275,722	297,019
Total Assets	$ 2,606,773	$ 3,289,426
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 15,573	$ 29,316
Accrued liabilities	64,165	63,623
Notes payable, capital leases, and commercial bank financing	292	182
Notes and capital leases payable to affiliates	4,157	7,086
Current portion of program contracts payable	121,396	111,069
Deferred barter revenues	2,971	3,548
Liabilities held for sale		20,823
Total current liabilities	208,554	235,647
LONG-TERM LIABILITIES:		
Notes payable, capital leases, and commercial bank financing, less current portion	1,518,690	1,645,138
Notes and capital leases payable to affiliates, less current portion	28,831	33,224
Program contracts payable, less current portion	124,658	127,958
Deferred tax liabilities	173,209	157,474
Other long-term liabilities	138,905	113,691
Total liabilities	2,192,847	2,313,132
MINORITY INTEREST IN CONSOLIDATED ENTITIES	2,746	4,334
COMMITMENTS AND CONTINGENCIES		
COMPANY OBLIGATED MANDATORILY REDEEMABLE SECURITIES OF SUBSIDIARY TRUST HOLDING SOLELY KDSM SENIOR DEBENTURES	200,000	200,000
STOCKHOLDERS' EQUITY:		
Series D Preferred Stock, $.01 par value, 3,450,000 shares authorized, issued and outstanding; liquidation preference of $172,500,000	35	35
Class A Common Stock, $.01 par value, 500,000,000 shares authorized and 43,866,259 and 41,088,992 shares issued and outstanding, respectively	439	411
Class B Common Stock, $.01 par value, 140,000,000 shares authorized and 41,705,678 and 43,219,035 shares issued and outstanding, respectively	417	432
Additional paid-in capital	760,478	748,353
Additional paid-in capital deferred compensation	(551)	(1,452)
Retained (deficit) earnings	(547,958)	26,886
Accumulated other comprehensive loss	(1,680)	(2,705)
Total stockholders' equity	211,180	771,960

	As of December 31,	
Total Liabilities and Stockholders' Equity	$ 2,606,773	$ 3,289,426

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

SINCLAIR BROADCAST GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE YEARS ENDED DECEMBER 31, 2002, 2001 AND 2000

(in thousands, except per share data)

	2002	2001	2000
REVENUES			
Station broadcast revenues, net of agency commissions of $104,409, $96,932 and $111,435, respectively	$ 670,534	$ 623,837	$ 699,422
Revenues realized from station barter arrangements	60,911	53,889	54,595
Other revenue	4,344	6,925	4,494
Total revenues	735,789	684,651	758,511
OPERATING EXPENSES:			
Program and production	140,060	142,696	149,048
Selling, general and administrative	169,194	168,798	171,769
Expenses recognized from station barter arrangements	54,567	48,159	48,543
Amortization of program contract costs and net realizable value adjustments	125,264	110,265	89,123
Stock-based compensation	1,399	1,559	1,762
Depreciation and amortization of property and equipment	41,219	37,802	37,081
Amortization of definite-lived intangible assets and other assets	19,456	112,459	104,685
Impairment and write down charge of long-lived assets		16,075	
Restructuring costs		3,700	
Contract termination costs		5,135	
Cumulative adjustment for change in assets held for sale			619
Total operating expenses	551,159	646,648	602,630
Operating income	184,630	38,003	155,881
OTHER INCOME (EXPENSE):			
Interest and amortization of deferred financing costs and debt discount	(126,500)	(143,574)	(152,219)
Subsidiary trust minority interest expense	(23,890)	(23,890)	(23,890)
Net gain (loss) on sale of broadcast assets	(478)	204	
Loss on derivative instrument	(30,939)	(32,220)	(296)
Interest income	1,485	2,643	2,644
Loss related to investments	(1,189)	(7,616)	(16,764)
Other income	2,100	1,115	168

	2002	2001	2000
Income (loss) before income taxes	5,219	(165,335)	(34,476)
(PROVISION) BENEFIT FOR INCOME TAXES	(1,369)	51,875	(3,355)
Net income (loss) from continuing operations	3,850	(113,460)	(37,831)
DISCONTINUED OPERATIONS:			
Income (loss) from discontinued operations, net of related income tax provision of $347, $193 and $4,711 respectively	372	(52)	6,932
Gain on disposal of discontinued operations, net of taxes of $8,175, $0, and $69,870, respectively	7,519		108,264
EXTRAORDINARY ITEM:			
Loss on early extinguishment of debt, net of related income tax benefit of $5,531 and $7,800 respectively	(9,831)	(14,210)	
CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE, net of tax benefit of $30,383	(566,404)		
NET (LOSS) INCOME	(564,494)	(127,722)	77,365
PREFERRED STOCK DIVIDENDS	10,350	10,350	10,350
NET (LOSS) INCOME AVAILABLE TO COMMON SHAREHOLDERS	$ (574,844)	$ (138,072)	$ 67,015
BASIC EARNINGS (LOSS) PER SHARE:			
Loss per share from continuing operations	$ (0.08)	$ (1.47)	$ (0.53)
Earnings per share from discontinued operations	$ 0.09	$	$ 1.26
Loss per share from extraordinary item	$ (0.12)	$ (0.17)	$
Loss per share from cumulative effect of change in accounting principle	$ (6.64)	$	$
(Loss) income per common share	$ (6.74)	$ (1.64)	$ 0.73
Weighted average common shares outstanding	85,337	84,352	91,405
DILUTED EARNINGS (LOSS) PER SHARE:			
Earnings (loss) per share from continuing operations	$ (0.08)	$ (1.47)	$ (0.53)
Earnings per share from discontinued operations	$ 0.09	$	$ 1.26
Loss per share from extraordinary item	$ (0.12)	$ (0.17)	$
Loss per share from cumulative effect of change in accounting principle	$ (6.64)	$	$
(Loss) income per common share	$ (6.74)	$ (1.64)	$ 0.73
Weighted average common and common equivalent shares outstanding	85,580	84,624	92,487

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

SINCLAIR BROADCAST GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2002, 2001 AND 2000

(in thousands)

	Series D Preferred Stock	Class A Common Stock	Class B Common Stock	Additional Paid-In Capital	Additional Paid-In Capital Equity Put Options	Additional Paid-In Capital Deferred Compensation	Retained Earnings (Accumulated Deficit)	Other Comprehensive Loss	Total Stockholders' Equity
BALANCE, December 31, 1999	$ 35	$ 491	$ 476	$ 834,393	$ 46,068	$ (4,489)	$ 97,943		$ 974,917
Class B Common Stock converted into Class A Common Stock		21	(21)						
Repurchased and retirement of 20,000 shares of Class A Common Stock		(126)		(123,174)					(123,300)
Dividends payable on Series D preferred stock							(10,350)		(10,350)
Stock Option: grants				558		(558)			
Stock options exercised				53					53
Class A Common Stock issued pursuant to employee benefit plans		4		2,655					2,659
Reclassification due to adoption of EITF No. 00-19					(7,811)				(7,811)
Equity put options				38,257	(38,257)				
Amortization of deferred compensation						92			92
Income tax benefit related to deferred compensation				(33)					(33)
Deferred compensation adjustment Related to forfeited stock options				(2,337)		2,337			
Net income							77,365		77,365
Unrealized loss on investments, net of tax of $695								(1,062)	(1,062)
Comprehensive income									76,303

	Series D Preferred Stock	Class A Common Stock	Class B Common Stock	Additional Paid-In Capital	Additional Paid-In Capital Equity Put Options	Additional Paid-In Capital Deferred Compensation	Retained Earnings (Accumulated Deficit)	Other Comprehensive Loss	Total Stockholders' Equity
BALANCE, December 31, 2000	$ 35	$ 390	$ 455	$ 750,372	$	$ (2,618)	$ 164,958	$ (1,062)	$ 912,530

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

SINCLAIR BROADCAST GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2002, 2001 AND 2000

(in thousands)

	Series D Preferred Stock	Class A Common Stock	Class B Common Stock	Additional Paid-In Capital	Additional Paid-In Capital Deferred Compensation	Retained Earnings	Accumulative Other Comprehensive Loss	Total Stockholders' Equity
BALANCE, December 31, 2000	$ 35	$ 390	$ 455	$ 750,372	$ (2,618)	$ 164,958	$ (1,062)	$ 912,530
Repurchase and retirement of 618,600 shares of Class A Common Stock		(6)		(4,391)				(4,397)
Stock options exercised		1		582				583
Class B Common Stock converted Into Class A Common Stock		23	(23)					
Dividend payable on Series D preferred stock						(10,350)		(10,350)
Termination of equity put options				78				78
Class A Common Stock issued to employee benefit plans		3		2,643				2,646
Amortization of deferred compensation					865			865
Deferred compensation adjustment related to forfeited stock options				(931)	301			(630)
Net loss						(127,722)		(127,722)
Other comprehensive loss:								
Reclass of derivative instruments upon implementation of SFAS No. 133, net of tax benefit of $1,509							(2,777)	(2,777)
							225	225

	Series D Preferred Stock	Class A Common Stock	Class B Common Stock	Additional Paid-In Capital	Additional Paid-In Capital Deferred Compensation	Retained Earnings	Accumulative Other Comprehensive Loss	Total Stockholders' Equity
Amortization of derivative instruments								
Unrealized loss on investment, net of tax benefit of $231							(345)	(345)
Realized loss on investments, net of tax benefit of $825							1,254	1,254
Comprehensive loss								(129,365)
BALANCE, December 31, 2001	$ 35	$ 411	$ 432	$ 748,353	$ (1,452)	$ 26,886	$ (2,705)	$ 771,960

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

SINCLAIR BROADCAST GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2002, 2001 AND 2000

(in thousands)

	Series D Preferred Stock	Class A Common Stock	Class B Common Stock	Additional Paid-In Capital	Additional Paid-In Capital Deferred Compensation	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
BALANCE, December 31, 2001	$ 35	$ 411	$ 432	$ 748,353	$ (1,452)	$ 26,886	(2,705)	$ 771,960
Class B Common Stock converted into Class A Common Stock		15	(15)					
Dividends payable on Series D preferred stock						(10,350)		(10,350)
Stock options exercised		3		2,803				2,806
Class A Common Stock issued pursuant to employee benefit plans		2		1,754				1,756
Class A Common Stock issued toacquire broadcast licenses		8		7,695				7,703
Issuance of Shares under ESPP				338				338
Amortization of deferred compensation					730			730
				(465)	171			(294)

	Series D Preferred Stock	Class A Common Stock	Class B Common Stock	Additional Paid-In Capital	Additional Paid-In Capital Deferred Compensation	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
Deferred compensation adjustment related to forfeited stock option								
Net income						(564,494)		(564,494)
Other comprehensive loss: Amortization of derivative Instruments							871	871
Realized loss on investment, net of tax benefit of $101							154	154
Comprehensive loss								(563,469)
BALANCE, December 31, 2002	$ 35	$ 439	$ 417	$ 760,478	$ (551)	$ (547,958)	$ (1,680)	$ 211,180

The accompanying notes are an integral part of these consolidated statement

SINCLAIR BROADCAST GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2002, 2001 AND 2000

(in thousands)

	2002	2001	2000
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES:			
Net (loss) income	$ (564,494)	$ (127,722)	$ 77,365
Adjustments to reconcile net (loss) income to net cash flows from operating activities			
Amortization of debt discount	98	98	131
Depreciation of property and equipment	41,513	38,848	40,101
Recognition of deferred revenue	(4,942)		
Loss from equity investments	1,519	7,616	16,764
Gain on sale of broadcast assets related to discontinued operations	(12,413)		(178,134)
(Gain) loss on sale of property	478	(204)	
Impairment and write down of long-lived assets		16,229	
Contract termination costs		5,135	
Unrealized loss on derivative instrument	30,939	32,220	296
Amortization of definite-lived intangible assets and other assets	19,581	116,383	114,895
Amortization of program contract costs and net realizable value adjustments	130,832	119,437	100,655
Amortization of deferred financing costs	3,954	4,071	3,313
Amortization of deferred compensation	435	235	92
Long term assets written off to extraordinary loss	12,307	5,601	

	2002	2001	2000
Cumulative effect of change in accounting principle	596,787		
Cumulative adjustment for change in assets held for sale			(1,237)
Amortization of derivative instruments	1,409	763	
Deferred tax (benefit) provision related to operations	49,490	(10,595)	11,760
Deferred tax (benefit) provision related to sale of broadcast assets from discontinued operations	(11,582)		(5,342)
Deferred tax benefit related to extraordinary loss	649	(97)	
Deferred tax benefit related to change in accounting principle	(30,383)		
Net effect of change in deferred barter revenues and deferred barter costs	(571)	(345)	(497)
Changes in assets and liabilities, net of effects of acquisitions and dispositions			
Decrease (increase) in accounts receivable, net	(2,871)	22,102	31,529
Decrease (increase) in taxes receivable	7,244	(43,395)	
(Increase) decrease in prepaid expenses and other current assets	(2,680)	(8,051)	2,019
Decrease in other long-term assets	3,173		
Increase (decrease) in accounts payable and accrued liabilities	(12,926)	7,941	(344)
Decrease in income taxes payable		(42,126)	(60,909)
Increase in other long-term liabilities	58	17,643	11,864
Payments on program contracts payable	(106,327)	(102,256)	(94,303)
Decrease in minority interest	(1,662)	(643)	(891)
Net cash flows from operating activities	149,615	58,888	69,127
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES:			
Acquisition of property and equipment	(62,909)	(29,017)	(33,256)
Payments relating to the acquisition of broadcast assets	(21,178)	(490)	(89,936)
Distributions from investments	654	408	408
Contributions in investments	(25,820)	(1,500)	(13,873)
Proceeds from sale of property	694	983	
Proceeds from sale of broadcast assets	124,472		346,439
Repayment of note receivable	30,257		
Deposits received on future sale of broadcast assets		125	
Loans to officers and affiliates	(104)	(4,078)	(639)
Proceeds from loans to officers and affiliates	6,756	231	677
Net cash flows from (used in) investing activities	52,822	(33,338)	209,820
CASH FLOWS (USED IN) FROM FINANCING ACTIVITIES:			
Proceeds from commercial bank financing and notes payable	1,263,075	1,334,000	707,500
Repayments of notes payable, commercial bank financing and capital leases	(1,492,548)	(1,291,000)	(879,500)
Repurchases of Class A Common Stock		(4,397)	(107,322)
Proceeds from exercise of stock options	2,807	583	53
Proceeds from termination of derivative instruments	21,849		4,434
Payments for deferred financing costs	(10,503)	(11,993)	
Payment from equity put options premium		(7,733)	
Dividends paid on Series D Convertible Preferred Stock	(10,350)	(10,350)	(10,350)
Repayments of notes and capital leases to affiliates	(3,503)	(6,688)	(6,079)
Net cash flows (used in) from financing activities	(229,173)	2,422	(291,264)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(26,736)	27,972	(12,317)
CASH AND CASH EQUIVALENTS, beginning of period	32,063	4,091	16,408

	2002	2001	2000
CASH AND CASH EQUIVALENTS, end of period	$ 5,327	$ 32,063	$ 4,091

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

SINCLAIR BROADCAST GROUP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2002, 2001 and 2000

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of Presentation

The accompanying consolidated financial statements include the accounts of Sinclair Broadcast Group, Inc., and all other consolidated subsidiaries, which are collectively referred to hereafter as "the Company, Companies, We or SBG." We own and operate, provide sales services, or provide programming and operating services pursuant to local marketing agreements to 62 television stations in 39 designated marketing areas (DMAs) throughout the United States. SBG owns equity interests in Internet companies including G1440, Inc., an Internet consulting and development company. SBG has an equity interest in and a strategic alliance with Acrodyne Communications, Inc., a manufacturer of transmitters and other television broadcast equipment. SBG has an equity interest in Summa Holdings, Ltd., a holding company that owns automobile dealerships, retail tire franchises and a leasing company.

Cunningham Broadcasting Corporation (Cunningham) owns the license assets of WNUV-TV, WTTE-TV, WRGT-TV, WVAH-TV, WTAT-TV and WBSC-TV. Cunningham owns, operates and controls the television stations. We do not own or control the television stations, but we have entered into local marketing agreements (LMA) with Cunningham to program each of these stations. Effective February 1, 2002, we restructured our LMA relationship with Cunningham and, as a result, Cunningham now meets the definition of a special purpose entity and pursuant to Emerging Issues Task Force Topic D-14, "Transactions Involving Special Purpose Entities," for accounting purposes only, the financial statements of Cunningham have been consolidated. The operating results of WTTV-TV are not included in our consolidated results from continuing operations for the years ended December 31, 2002, 2001 and 2000. Since this agreement met all of the criteria for a qualifying plan of sale, the assets and liabilities disposed of by this sale have been classified as "held for sale" on the accompanying balance sheet presented. See *Note 11. Related Party Transactions* and *Note 12. Acquisitions and Dispositions*.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and all its wholly owned and majority-owned subsidiaries and a company that fits the definition of a special purpose entity. Minority interest represents a minority owner's proportionate share of the equity in certain of the Company's consolidated entities. All significant intercompany transactions and account balances have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses in the financial statements and in the disclosures of contingent assets and liabilities. Actual results could differ from those estimates.

Recent Accounting Pronouncements

In June 2001, the Financial Accounting Standards Board (FASB) approved Statement of Financial Accounting Standard (SFAS) No. 141, *Business Combinations,* and SFAS No. 142, *Goodwill and Other*

Intangible Assets. SFAS No. 141 prospectively prohibits the pooling of interest method of accounting for business combinations initiated after June 30, 2001. SFAS No. 142 requires companies to cease amortizing goodwill and certain other intangible assets including broadcast licenses. Effective January 1, 2002, SFAS No. 142 also establishes a new method of testing goodwill and broadcast licenses for impairment on an annual basis or on an interim basis if an event occurs or circumstances change that would reduce the fair value of a reporting unit below its carrying value. The adoption of SFAS No. 142 resulted in discontinuation of amortization of our goodwill and broadcast licenses commencing January 1, 2002; however, we are required to test goodwill and broadcast licenses for impairment under the new standard during 2002.

During the three months ended March 31, 2002, we tested our broadcast licenses for impairment in accordance with SFAS No. 142 based on the estimated fair value of such licenses in their respective markets. We estimated the fair values of our broadcast licenses using discontinued cash flow models. The estimated fair value was compared to the book value to determine whether any impairment had occurred. As a result of this analysis we incurred a pretax impairment charge of $64.0 million.

SFAS No. 142 requires that goodwill be tested for impairment at the reporting unit level at adoption and at least annually thereafter, utilizing a two-step methodology. The initial step required us to determine the fair value of each reporting unit and compare it to the carrying value, including goodwill, of such unit. If the fair value exceeded the carrying value, no impairment loss was recognized. However, if the carrying value of the reporting unit exceeded its fair value, the goodwill of this unit might have been impaired. The amount, if any, of the impairment would then be measured in the second step. The second step requires us to calculate the fair value of goodwill by allocating the fair value of the reporting unit to each of the assets and liabilities of the reporting unit based on their fair values. This calculated goodwill is then compared to the book value of the goodwill and an impairment loss is recognized to the extent that the book value exceeds the fair value.

We determined that our designated marketing areas (DMAs) were reporting units under SFAS No. 142. In connection with adopting this standard during 2002, we completed step one of the test for impairment by comparing the book value of our reporting units, including goodwill, to the estimated fair value of our reporting units as of January 1, 2002. We estimated the fair value of our reporting units using a combination of quoted market prices, observed earnings multiples paid for comparable television stations and discounted cash flow models.

We performed the second step of the goodwill impairment test for those DMAs whose goodwill was found to be potentially impaired as a result of the first step. We performed the second step by allocating the estimated fair value of the reporting unit to each of the assets and liabilities of the reporting unit based on their estimated fair values. We estimated the fair values of the assets and liabilities using a combination of observed prices paid for similar assets and liabilities, discounted cash flow models and appraisals.

As a result of such testing, we recorded a pre-tax impairment charge of $532.8 million related to nine of our DMAs and our software development and consulting company. The total impairment charge of $596.8 million related to our broadcast licenses and goodwill is reflected as a cumulative effect of a change in accounting principle on our consolidated statement of operations, net of the related tax benefit of $30.3 million.

SFAS No. 142 requires goodwill and definite lived intangible assets to be tested for impairment on an annual basis; therefore, we tested these assets for impairment as of October 1, 2002 by comparing their book values to their estimated fair values. There was no impairment charge recorded based on the results of such testing.

The following table shows the effect on net income (loss) available to common shareholders and income (loss) per share, had we adopted SFAS No. 142 on January 1, 2000 (in thousands, except per share data).

	For the Twelve Months ended December 31,		
	2002	2001	2000
Reported net (loss) income available to common stockholders	$ (574,844)	$ (138,072)	$ 67,015
Add: goodwill amortization		56,501	54,761
Add: broadcast license amortization		15,133	12,254

	For the Twelve Months ended December 31,		
Adjusted net (loss) income	$ (574,844)	$ (66,438)	$ 134,030
Basic and diluted (loss) earnings per share:			
Reported net (loss) income available to common stockholders	$ (6.74)	$ (1.64)	$ 0.73
Goodwill amortization		0.67	0.60
Broadcast license amortization		0.18	0.14
Adjusted net (loss) income	$ (6.74)	$ (0.79)	$ 1.47

The following table shows the effect on income (loss) from continuing operations and income (loss) from continuing operations per share had we adopted SFAS 142 on January 1, 2000 (in thousands, except per share data):

	For the Twelve Months ended December 31,		
	2002	2001	2000
Reported net income (loss) from continuing operations	$ 3,850	$ (113,460)	$ (37,831)
Add: goodwill amortization		55,049	53,623
Add: broadcast license amortization		14,353	11,475
Adjusted net earnings (loss) from continuing operations	$ 3,850	$ (44,058)	$ 27,267
Basic earnings (loss) per share:			
Reported net income (loss) from continuing operations	$ (0.08)	$ (1.47)	$ (0.53)
Goodwill amortization		0.65	0.59
Broadcast license amortization		0.17	0.13
Adjusted net (loss) earnings from continuing operations	$ (0.08)	$ (0.65)	$ 0.19
Diluted earnings (loss) per share:			
Reported net loss from continuing operations	$ (0.08)	$ (1.47)	$ (0.53)
Goodwill amortization		0.65	0.58
Broadcast license amortization		0.17	0.13
Adjusted net (loss) earnings from continuing operations	$ (0.08)	$ (0.65)	$ 0.18

In June 2001, the FASB approved SFAS No. 143, *Accounting for Asset Retirement Obligations*. SFAS No. 143 is effective for fiscal years beginning after June 15, 2002 and addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. We do not expect the adoption of SFAS No. 143 to have a material effect on our financial statements.

We adopted SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* on January 1, 2002. As a result of adopting SFAS No. 144, we classified the assets and liabilities of WTTV-TV as assets and liabilities held for sale in the accompanying balance sheet and reported the results of operations of WTTV-TV as discontinued operations in the accompanying statements of operations. Discontinued operations have not been segregated in the Statement of Consolidated Cash Flows and, therefore, amounts for certain captions will not agree with the accompanying consolidated statements of operations. *See Note 12 Acquisitions and Dispositions*.

In April 2002, the FASB approved SFAS No. 145, *Rescission of FASB Statements Nos. 4, 44 and 64, Amendment of FASB Statement No. 13 and Technical Corrections*. SFAS No. 145 will require us to record gains and losses on extinguishment of debt as a component of income from continuing operations rather than as an extraordinary item, and to reclassify such items for all periods presented. We will be required to adopt this provision of SFAS No. 145 on January 1, 2003. We do not expect the other provisions of SFAS No. 145 to have a material effect on our financial statements.

In June 2002, the FASB approved SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*. SFAS No. 146 is effective after December 31, 2002, and addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies EITF issue No. 94-3, *Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity*. The primary difference between SFAS No. 146 and EITF 94-3 concerns the timing of liability recognition and we do not expect the adoption of SFAS No. 146 to have a material effect on our financial statements.

In November 2002, the Emerging Issues Task Forces (EITF) reached a consensus on Issue 02-16, *Accounting by Reseller for Cash Consideration Received from a Vendor*, (EITF 02-16). EITF 02-16 requires us to treat our deferred commission credits as a reduction in selling expense when realized and not as broadcast revenue. We early adopted EITF 02-16 on December 31, 2002. This adoption resulted in a reclassification of $3.9 million and $1.6 million for the years ended December 2002 and 2001, respectively.

As of December 2002, we adopted SFAS No. 148, *Accounting for Stock-Based Compensation Transaction and Disclosure, an Amendment of FASB No. 123.* SFAS No. 148 revises the methods permitted by SFAS No. 123 of measuring compensation expense for stock-based employee compensation plans. We use the intrinsic value method prescribed in Accounting Principles Board Option No. 25, as permitted under SFAS No. 123. Therefore, this change did not have a material effect on our financial statements. SFAS No. 148 requires us to disclose pro forma information related to stock-based compensation, in accordance with SFAS No. 123, on a quarterly basis in addition to the current annual basis disclosure. We will report the pro forma information on an interim basis beginning with our March 31, 2003 Form 10-Q.

In January 2003, the Financial Accounting Standards Board (FASB) issued Interpretation No. 46, *Consolidation of Variable Interest Entities, an Interpretation of Accounting Research Bulletin (ARB) No. 51* (FIN 46). FIN 46 introduces the variable interest consolidation model, which determines control and consolidation based on potential variability in gains and losses of the entity being evaluated for consolidation. We believe that Cunningham Broadcasting is an entity that would be considered a variable interest entity under FIN 46. We commenced consolidating Cunningham on February 1, 2002; therefore, do not expect FIN 46 to have a material impact on our financial statements.

Cash and Cash Equivalents

The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Accounts Receivable

Management regularly reviews accounts receivable and determines an appropriate estimate for the allowance for doubtful accounts based upon the impact of economic conditions on the merchant's ability to pay, past collection experience and such other factors which, in management's judgment, deserve current recognition. In turn, a provision is charged against earnings in order to maintain the allowance level.

Programming

The Company has agreements with distributors for the rights to television programming over contract periods, which generally run from one to seven years. Contract payments are made in installments over terms that are generally shorter than the contract period. Each contract is recorded as an asset and a liability at an amount equal to its gross 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 accompanying consolidated balance sheets.

The rights to program materials are reflected in the accompanying consolidated balance sheets at the lower of unamortized cost or estimated net realizable value. Estimated net realizable values are based upon management's expectation of future advertising revenues net of sales commissions to be generated by the program material. Amortization of program contract costs is generally computed using either a four year accelerated method or based on usage, whichever method yields the greater amortization for each program. Program contract costs, estimated by management to be amortized in the succeeding year, are classified as current assets. Payments of program contract liabilities are typically paid on a scheduled basis and are not affected by adjustments for amortization or estimated net realizable value.

Barter Arrangements

Certain program contracts provide for the exchange of advertising airtime in lieu of cash payments for the rights to such programming. These contracts are recorded as the programs are aired at the estimated fair value of the advertising airtime given in exchange for the program rights. Network programming is excluded from these calculations.

The Company broadcasts certain customers' advertising in exchange for equipment, merchandise and services. The estimated fair value of the equipment, merchandise or services received is recorded as deferred barter costs and the corresponding obligation to broadcast advertising is recorded as deferred barter revenues. The deferred barter costs are expensed or capitalized as they are used, consumed or received. Deferred barter revenues are recognized as the related advertising is aired.

Other Assets

Other assets as of December 31, 2002 and 2001 consisted of the following (in thousands):

	2002	2001
Notes and other receivables	$ 405	$ 51,864
Unamortized costs relating to securities issuances	19,691	25,003
Investments	35,400	13,331
Fair value of derivative instruments	26,309	6,431
Deposits and other costs relating to future acquisitions	3,123	2,637
Other	6,191	6,628
	$ 91,119	$ 105,894

Investments

The Company uses the equity method of accounting for investments in which it has a 20% to 50% ownership interest or when the Company exercises significant influence over the operating and financial policies of the investee. For investments in which it has less than a 20% interest and does not exercise significant influence over the operating and financial policies of the investee, the Company uses the lower of cost or fair market value method of accounting.

As of December 31, 2002, the Company had a 35% ownership interest in Acrodyne Communications, Inc. (Acrodyne). Acrodyne designs, manufactures, and markets digital and analog television broadcast transmitters for domestic and international television stations, broadcasters, government agencies, not-for-profit organizations, and educational institutions. The Company accounts for its investment in Acrodyne under the equity method of accounting. During August 2000, Acrodyne announced that it would be restating its financial statements for the year ended December 31, 1999 and the three months ended March 31, 2000 due to an overstatement of revenue, inventory and gross profits. The impact of the 1999 restatement, which would have increased the Company's equity share of Acrodyne's losses from $0.5 million to $2.3 million, was not material to the Company's 1999 net income. As a result of the restatement, Acrodyne was unable to fulfill its quarterly reporting requirements with the Securities and Exchange Commission (SEC) for the quarters ended June 30, 2000 and September 30, 2000 on a timely basis. During September 2000, Acrodyne was delisted from the National Association of Securities Dealers Automatic Quotation (NASDAQ). As a result, in 2000 the Company wrote-off its investment in Acrodyne to zero and recorded a loss of $6.9 million, including its equity in the revised 2000 losses described above and the 2001 losses through the write-off date, which has been reflected in the accompanying consolidated statements of operations as loss related to investments.

During 2001 and 2000, the Company advanced and guaranteed loans to Acrodyne under various credit facilities which were fully reserved as of December 31, 2001 and 2000, respectively. Accordingly, the Company incurred a loss of $4.2 million and $3.2 million during 2001 and

2000, respectively, which has also been reflected in the accompanying consolidated statements of operations as loss related to investments.

On January 1, 2003, the Company forgave indebtedness owed to them by Acrodyne in the aggregate amount of $9.0 million in exchange for 20.3 million additional shares of Acrodyne common stock. The terms of the agreement also committed the Company to an additional investment of $1.0 million, which we funded on January 1, 2003. As a result of the agreement, the Company will own an 82.5% interest in Acrodyne and beginning January 1, 2003, the Company will consolidate the financial statements of Acrodyne Communications, Inc., rather than account for the investment under the equity method of accounting.

The Company owns a 77.0% interest in Allegiance Capital, Limited Partnership, (Allegiance). Allegiance is a private mezzanine venture capital fund, which invests in the subordinated debt and equity of privately held companies. The partnership is structured as a debenture Small Business Investment Company (SBIC) and is a federally licensed SBIC. Since the company does not have significant control but only significant influence, the Company accounts for its investment in Allegiance under the equity method of accounting.

The condensed balance sheets of our significant unconsolidated subsidiaries as of December 31, 2002 and 2001 and their condensed statements of operations for the years ended December 31, 2002, 2001, and 2000 are summarized as follows (in thousands):

	2002	2001
Current assets	$ 25,705	$ 14,796
Long-term assets	1,114	1,297
Property, plant and equipment and license agreement	3,480	3,772
Total assets	30,299	19,865
Current liabilities	18,153	15,127
Long-term liabilities	17,698	13,679
Total liabilities	35,851	28,806
Equity	(5,552)	(8,941)
Total liabilities and equity	$ 30,299	$ 19,865

	2002	2001	2000
Net sales	$ 26,208	$ 13,895	$ 6,896
Net investment income	(387)	283	97
Cost of sales	(18,989)	(9,801)	(8,730)
Operating expenses	(5,481)	(5,980)	(10,383)
Interest expense	(792)	(855)	(775)
Other income	59	171	8
Realized gains and losses		(1,700)	
Changes in unrealized gains and losses		(230)	
Net income (loss)	$ 618	$ (4,217)	$ (12,887)

In 1999, the Company made a $2.0 million investment, representing a 30% ownership interest, in Channel 23 LLC, a start-up entity created to purchase a Federal Communication Commission (FCC) license and retransmit a signal in the Tuscaloosa, Alabama market. Channel 23 LLC had no operations and was abandoned by the Company during 2000 resulting in a loss of $2.2 million which has also been reflected in the accompanying Consolidated Statements of Operations as loss related to investments.

We recorded our investment in Synergy Brands, Inc. in accordance with Statement of Financial Accounting Standards No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, (SFAS No. 115), whereby we recorded changes in the fair market value of our investment as other comprehensive income. During 2002 we sold this investment and recorded a loss of $159,000.

On December 30, 2002, we invested $20 million in Summa Holdings, Ltd. (Summa), resulting in a 17.5% equity interest. Summa is a holding company, which owns automobile dealerships, retail tire franchises and a leasing company. David D. Smith, our President and Chief Executive Officer has a controlling interest in Summa and is on the Board of Directors. We will have significant influence by holding a board seat (in addition to the board seat held by David D. Smith); therefore we will account for this investment under the equity method of accounting.

The Company has other cost and equity investments in Internet related activities and venture capital companies. Management does not believe these investments individually, or in the aggregate, are material to the accompanying consolidated financial statements.

Impairment of Long-lived Assets

During June 2001, the San Francisco office of the Company's Internet consulting and development subsidiary was reorganized. The office reduced staff due to a significant slow down of business activity in the San Francisco market. In addition, the focus of the San Francisco office has shifted toward marketing an existing product. As a result, management determined that the San Francisco office's goodwill was permanently impaired and, as such, recorded a write-off of goodwill in the amount of $2.8 million during June 2001. Under the provisions of SFAS No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of*, the Company evaluated its long-lived assets for financial impairment, and will continue to evaluate them as events or changes in circumstances indicate that the carrying amount of such assets may not be fully recoverable. The Company evaluates the recoverability of long-lived assets by measuring the carrying amount of the assets against the estimated undiscounted future cash flows associated with them. At the time such evaluations indicate that the future undiscounted cash flows of certain long-lived assets are not sufficient to recover the carrying value of such assets, the assets are adjusted to their fair values. Based on these evaluations, the Company determined that its station KBSI-TV in Paducah, Kentucky had an impairment to goodwill and, in accordance with SFAS No. 121, recorded a charge to write off goodwill in the amount of $9.2 million during December 2001. As of December 31, 2002, management believes that the carrying amounts of the remainder of the Company's tangible and intangible assets have not been impaired under SFAS No. 144.

During 2002 and 2001, the Company wrote-off $0.8 million and $4.2 million, respectively of fixed assets which represents the net book value of damaged, obsolete, or abandoned property.

Accrued Liabilities

Accrued liabilities consisted of the following as of December 31, 2002 and 2001 (in thousands):

	2002	2001
Compensation	$ 17,383	$ 19,984
Interest	21,457	18,464
Other accruals relating to operating expenses	25,325	25,175
	$ 64,165	$ 63,623

Supplemental Information Statements of Cash Flows

During 2002, 2001 and 2000, the Company incurred the following transactions (in thousands):

	2002	2001	2000
Capital leases obligations incurred	$ 29,526	$ 27,878	$ 5,319
Income taxes paid from operations	$ 2,879	$ 3,593	$ 6,294

	2002	2001	2000
Income taxes paid related to sale of discontinued operations	$ 111	$ 31,876	$ 115,143
Income tax refunds received	$ 47,077	$ 2,405	$ 3,598
Subsidiary trust minority interest payments	$ 23,250	$ 23,250	$ 23,250
Interest paid	$ 119,669	$ 150,312	$ 139,833
Payments related to extraordinary loss	$ 2,411	$ 16,409	$
Stock issued to acquire broadcast licenses	$ 7,703	$	$

Non-cash barter revenue and expense are presented in the consolidated statements of operations.

Local Marketing Agreements

The Company generally enters into local marketing agreements (LMA) and similar arrangements with stations located in markets in which the Company already owns and operates a station, and in connection with acquisitions, pending regulatory approval of transfer of license assets. Under the terms of these agreements, the Company makes specific periodic payments to the owner-operator in exchange for the grant to the Company of the right to program and sell advertising on a specified portion of the station's inventory of broadcast time. Nevertheless, as the holder of the FCC license, the owner-operator retains control and responsibility for the operation of the station, including responsibility over all programming broadcast on the station.

Included in the accompanying consolidated statements of operations for the years ended December 31, 2002, 2001 and 2000, are net revenues of $111.6 million, $235.8 million and $253.9 million, respectively, that relate to LMAs.

Outsourcing Agreements

The Company has entered into 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.

Broadcast Assets Held For Sale

In March 1999, the Company entered into an agreement to sell to Sunrise Television Corporation (STC), the television stations WICS/WICD-TV in the Springfield/Champaign, Illinois market and KGAN-TV in the Cedar Rapids, Iowa market. In April 1999, the Justice Department requested additional information in response to STC's filing under the Hart-Scott-Rodino Antitrust Improvements Act. Pursuant to the agreements, if the transaction did not close by March 16, 2000, either STC or the

Company had the option to terminate the agreement at that time. On March 15, 2000, the Company entered into an agreement to terminate the STC transaction. As a result of its termination, the Company recorded a cumulative accounting adjustment during the first quarter of 2000 as the Company previously recorded the assets and liabilities related to these stations as "Broadcast Assets Held for Sale" and deferred the losses related to these stations until they were sold.

On April 18, 2002, we entered into an agreement to sell the television station of WTTV-TV in Bloomington, Indiana and its satellite station, WTTK-TV in Kokomo, Indiana (collectively referred to as WTTV-TV) to a third party. On July 24, 2002, WTTV-TV had net assets and liabilities held for sale of $108.8 million, and we completed such sale for $124.5 million and recognized a gain, net of taxes, of $7.5 million.

The operating results of WTTV-TV are not included in our consolidated results from continuing operations for the years ended December 31, 2002, 2001 and 2000. We recorded income from discontinued operation of $7.9 million, which includes a gain on sale of

$7.5 million, for the year ended December 31, 2002 and a loss of $52,000 and income of $2.1 million for the years ended December 31, 2001 and 2000, respectively. Since this agreement met all of the criteria for a qualifying plan of sale, the assets and liabilities disposed of by this sale have been reclassified as "held for sale" on the accompanying 2001 balance sheet presented.

Revenue Recognition

Advertising revenues, net of agency and national representatives' commissions, are recognized in the period during which time spots are aired. Total revenues includes (i) cash and barter advertising revenues, net of agency and national representatives' commissions, (ii) network compensation, and (iii) other revenues.

Reclassifications

Certain reclassifications have been made to the prior years' financial statements to conform to the current year presentation. The 2001 consolidated balance sheet has been reclassified to reflect a reduction of deferred tax liabilities, and an equal reduction of goodwill totaling $76.2 million resulting from adjustments made to acquisition accounting.

Pro Forma Information Related To Stock-Based Compensation

As permitted under SFAS No. 123, *Accounting for Stock-Based Compensation*, the Company measures compensation expense for its stock-based employee compensation plans using the intrinsic value method prescribed by Accounting Principles Board Option No. 25, *Accounting for Stock Issued to Employees*, and provides pro forma disclosures of net income and earnings per share as if the fair value-based method prescribed by SFAS No. 123 had been applied in measuring compensation expense.

Had compensation cost for the Company's 2002, 2001 and 2000 grants for stock-based compensation plans been determined consistent with SFAS No. 123, the Company's net (loss) income

available to common shareholders for these years would approximate the pro forma amounts below (in thousands, except per share data):

	2002		2001		2000	
	As Reported	Pro-Forma	As Reported	Pro-Forma	As Reported	Pro-Forma
Net (loss) income available to common shareholders	$ (574,844)	$ (581,955)	$ (138,072)	$ (140,988)	$ 67,015	$ 55,399
Basic net (loss) income per share	$ (6.74)	$ (6.82)	$ (1.64)	$ (1.67)	$ 0.73	$ 0.61
Diluted net (loss) income per share	$ (6.74)	$ (6.82)	$ (1.64)	$ (1.67)	$ 0.73	$ 0.61

The Company has computed for pro forma disclosure purposes the value of all options granted during 2002, 2001 and 2000 using the Black-Scholes option pricing model as prescribed by SFAS No. 123 using the following weighted average assumptions:

	Year Ended December 31,		
	2002	2001	2000
Risk-free interest rate	4.24%	4.68%	6.55%
Expected lives	5 years	6 years	6 years
Expected volatility	55%	59%	63%
Weighted Average Fair Value	$ 6.34	$ 4.96	$ 6.13

Adjustments are made for options forfeited prior to vesting.

2. PROPERTY AND EQUIPMENT:

Property and equipment are stated at cost, less accumulated depreciation. Depreciation is computed under the straight-line method over the following estimated useful lives:

Buildings and improvements	10-35 years
Station equipment	5-10 years
Office furniture and equipment	5-10 years
Leasehold improvements	10-31 years
Automotive equipment	3-5 years
Property and equipment and autos under capital leases	Shorter of 10 years or the lease term

Property and equipment consisted of the following as of December 31, 2002 and 2001 (in thousands):

	2002	2001
Land and improvements	$ 17,077	$ 16,968
Buildings and improvements	108,661	87,436
Station equipment	306,786	240,203
Office furniture and equipment	37,340	32,857
Leasehold improvements	10,615	9,087
Automotive equipment	9,802	9,517
Construction in progress	33,465	36,677
	523,746	432,745
Less Accumulated depreciation	(186,496)	(151,094)
	$ 337,250	$ 281,651

3. GOODWILL AND OTHER INTANGIBLE ASSETS:

Intangible assets and other assets subject to amortization are being amortized on a straight-line basis over periods of 5 to 25 years. These amounts result from the acquisition of certain television station non-license assets. We estimate the useful lives based on an analysis of all pertinent factors including our expected use of the asset, any legal, regulatory, or contractual provisions that may limit the assets' useful life, and the effects of obsolescence, demand, competition, and other economic factors. Additionally, in determining the useful lives of our network affiliation agreements, we anticipate that we will be able to renew our network affiliation agreements without substantial costs or material modifications of the existing terms and conditions. The following table shows the gross carrying amount and accumulated amortization of intangibles and estimated amortization (in thousands):

		For the year ended December 31, 2002		For the year ended December 31, 2001	
	Amortization Period	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortized intangible assets:					
Network affiliation	15-25 years	$ 244,288	$ (48,856)	$ 244,515	$ (46,556)
Decaying advertiser base	15 years	119,264	(53,337)	119,756	(39,276)
Other	5-25 years	26,932	(12,569)	28,988	(10,408)
Total		$ 390,484	$ (114,762)	$ 393,259	$ (96,240)
Unamortized intangible assets:					
Broadcast licenses		$ 504,633	(74,705)	$ 496,619	(74,705)
Goodwill		1,428,190	(305,208)	1,962,076	(305,208)

	For the year ended December 31, 2002		For the year ended December 31, 2001	
Total	$ 1,932,823	$ (379,913)	$ 2,458,695	$ (379,913)

The amortization expense of the definite-lived intangible assets for the years ended December 31, 2002 and 2001 was $19.5 million and $24.7 million, respectively. The following table shows the estimated amortization expense of the definite-lived intangible assets for the next five years.

For the year ended December 31, 2003	$ 18,567
For the year ended December 31, 2004	$ 18,366
For the year ended December 31, 2005	$ 17,972
For the year ended December 31, 2006	$ 17,928
For the year ended December 31, 2007	$ 17,928

The change in the carrying amount of goodwill for the twelve months ended December 31, 2002 is as follows:

Balance as of January 1, 2002	$ 1,656,868
Acquisitions	1,435
Reclassifications of prior year acquisitions tax contingencies	(2,546)
Impairment of goodwill	(532,775)
Balance as of December 31, 2002	$ 1,122,982

Included in the assets sold on disposal of discontinued operations is $79.6 million of goodwill.

4. NOTES PAYABLE AND COMMERCIAL BANK FINANCING:

1998 Bank Credit Agreement

In order to expand its borrowing capacity to fund acquisitions and obtain more favorable terms with its syndicate of banks, the Company obtained a $1.75 billion senior secured credit facility (the "1998 Bank Credit Agreement"). The 1998 Bank Credit Agreement was executed in May 1998 and includes (i) a $750.0 million Term Loan Facility repayable in consecutive quarterly installments commencing on March 31, 1999 and ending on September 15, 2005; and (ii) a $1.0 billion reducing Revolving Credit Facility. Availability under the Revolving Credit Facility reduces quarterly, commencing March 31, 2001 and terminating on September 15, 2005. Not more than $350.0 million of the Revolving Credit Facility will be available for issuance's of letters of credit. The 1998 Bank Credit Agreement also includes a standby uncommitted multiple draw term loan facility of $400.0 million. The Company is required to prepay the Term Loan Facility and reduce the Revolving Credit Facility with (i) 100% of the net proceeds of any casualty loss or condemnation; (ii) 100% of the net proceeds of any sale or other disposition by the Company of any assets in excess of $100.0 million in the aggregate for any fiscal year, to the extent not used to acquire new assets; and (iii) 50% of excess cash flow (as defined) if the Company's ratio of debt to EBITDA (as defined) exceeds a certain threshold. The 1998 Bank Credit Agreement contains representations and warranties, and affirmative and negative covenants, including among other restrictions, limitations on additional indebtedness, customary for credit facilities of this type. The 1998 Bank Credit Agreement is secured only by a pledge of the stock of each subsidiary of the Company other than KDSM, Inc., KDSM Licensee, Inc., Cresap Enterprises, Inc., Sinclair Capital and Sinclair Ventures, Inc. The Company is required to maintain certain debt covenants in connection with the 1998 Bank Credit Agreement.

The applicable interest rate for the Term Loan Facility and the Revolving Credit Facility is either LIBOR plus 0.5% to 1.875% or the alternative base rate plus zero to 0.625%. The applicable interest rate for the Term Loan Facility and the Revolving Credit Facility is adjusted based on the ratio of total debt to four quarters' trailing earnings before interest, taxes, depreciation and amortization. As of December 31, 2000, the Company's applicable interest rate for borrowings under the 1998 Bank Credit Agreement is either LIBOR plus 1.5% or the alternative base rate plus 0.25%.

On May 16, 2001, the Company closed on an amendment and restatement of the 1998 Bank Credit Agreement (the "Amended and Restated Bank Credit Agreement") allowing it more operating capacity and liquidity. The Amended and Restated Bank Credit Agreement reduced the aggregate borrowing capacity from $1.6 billion to $1.1 billion. The Company repaid the unamortized outstanding balance of the $750.0 million

Term Loan Facility with the proceeds from the Amended and Restated Bank Credit Agreement. The Amended and Restated Bank Credit Agreement consists of a $600 million Revolving Credit Facility and a $500 million Incremental Term Loan Facility repayable in consecutive quarterly installments amortizing 1% per year commencing March 31, 2003 and continuing through its maturity on September 30, 2009. Availability under the Revolving Credit Facility reduces quarterly, commencing on September 30, 2003 and terminating at maturity. The Company is required to prepay the Term Loan Facility and reduce the Revolving Credit Facility with (i) 100% of the net proceeds of any casualty loss or condemnation; (ii) 100% of the net proceeds of any sale or other disposition by the Company of any assets in excess of $100 million in the aggregate for any fiscal year, to the extent not used to acquire new assets; and (iii) 50% of excess cash flow (as defined) if the Company's ratio of debt to EBITDA (as defined) exceeds a certain threshold. The Amended and Restated Bank Credit Agreement contains representations and warranties, and affirmative and negative covenants, including among other restrictions, limitations on additional indebtedness, customary for credit facilities of this type. The Amended and Restated Bank Credit Agreement is secured only by a pledge of the stock of each subsidiary of the Company other than KDSM, Inc., KDSM Licensee, Inc., Cresap Enterprises, Inc., Sinclair Capital and Sinclair Ventures, Inc.

The applicable interest rate for the Revolving Credit Facility is either LIBOR plus 1.25% to 3% or the alternative base rate plus zero to 1.75%. The applicable interest rate for the Revolving Credit Facility is adjusted based on the ratio of total debt to four quarters' trailing earnings before interest, taxes, depreciation and amortization. The applicable interest rate on the Incremental Term Loan Facility is LIBOR plus 3.50% or the alternative base rate plus 2.25% through maturity.

As a result of amending the Company's 1998 Bank Credit Agreement, the Company incurred debt acquisition costs of $8.5 million and recognized an extraordinary loss of $4.7 million, net of a tax benefit of $2.6 million. The extraordinary loss represents the write-off of certain debt acquisition costs associated with indebtedness replaced by the new facility. The extraordinary loss was computed based on the guidance of EITF No. 96-19 *Debtor's Accounting for a Modification or Exchange of Debt Instrument* and EITF No. 98-14 *Debtor's Accounting for changes in Line of Credit or Revolving Debt Arrangements.*

On October 30, 2001, the Company closed on a short-term amendment of its 1998 Bank Credit Agreement, as amended and restated in May 2001. The amendment, which is effective through September 30, 2002, provides for relaxed leverage and interest coverage ratios and increases the interest rate by 50 basis points during the amendment period. On October 1, 2002, the Company

reverted back to its financial covenant and pricing levels as amended in May 2001. As a result of the amendment, the Company's interest rate on the Revolving Credit Facility and Incremental Term Loan Facility is LIBOR plus 3.5% and LIBOR plus 4.00%, respectively. After November 14, 2002, the applicable interest rate on the Revolving Credit Facility is either LIBOR plus 1.25% to 3.00% or the alternative base rate plus zero to 1.75% adjusted quarterly based on the ratio of total debt to four quarters' trailing earnings before interest, taxes, depreciation and amortization, as adjusted in accordance with the 1998 Bank Credit Agreement. After November 14, 2002, the applicable interest rate on the Incremental Term Loan Facility is LIBOR plus 3.50% or the alternative base rate plus 2.25% through maturity. The Company incurred $3.4 million of debt acquisition costs as a result of amending the Company's 1998 Bank Credit Agreement. These costs were capitalized in accordance with EITF No. 96-19 and EITF No. 98-14 and will be amortized to interest expense over the remaining life of the debt.

The weighted average interest rates for outstanding indebtedness relating to the Amended and Restated Bank Credit Agreement during 2001 and as of December 31, 2001 were 6.57% and 5.85%, respectively. The weighted average interest rates for outstanding indebtedness relating to the 1998 Bank Credit Agreement during 2000 and as of December 31, 2000 were 7.73% and 7.54%, respectively. Interest expense relating to the 1998 Bank Credit Agreement was $61.1 million and $79.3 million, for years ended December 31, 2001 and 2000, respectively.

2002 Bank Credit Agreement

On July 15, 2002, we closed on a new Bank Credit Agreement (the 2002 Bank Credit Agreement), allowing us more operating capacity and liquidity. The proceeds of the 2002 Bank Credit Agreement were used to pay off the 1998 Bank Credit Agreement. The 2002 Bank Credit Agreement consists of a $225.0 million Revolving Credit Facility maturing on June 30, 2008 and a $375.0 million Term Loan B Facility repayable in consecutive quarterly installments, amortizing 0.25% per quarter, commencing June 30, 2004 and continuing through its maturity on December 31, 2009.

The applicable interest rate on the Revolving Credit Facility is either LIBOR plus 1.25% to 2.25% or the alternative base rate plus 0.25% to 1.25% adjusted quarterly based on the ratio of total debt, net of cash, to four quarters' trailing earnings before interest, taxes, depreciation and amortization, as adjusted in accordance with the 2002 Bank Credit Agreement. The applicable interest rate on the Term Loan B Facility is either LIBOR plus 2.25% or the alternative base rate plus 1.25%.

Availability under the Revolving Credit Facility does not reduce incrementally and terminates at maturity. The Company is required to prepay the Term Loan Facility and reduce the Revolving Credit Facility with (i) 100% of the net proceeds of any casualty loss or condemnation and; (ii) 100% of the net proceeds of any sale or other disposition by the Company of any assets in excess of $100 million in the aggregate for any fiscal year, to the extent not used to acquire new assets. The 2002 Bank Credit Agreement contains representations and warranties, and affirmative and negative covenants, including among other restrictions, limitations on additional indebtedness, customary for credit facilities of this type. The 2002 Bank Credit Agreement is secured only by a pledge of the stock of each subsidiary of the Company other than KDSM, Inc., KDSM Licensee, LLC., Cresap Enterprises, Inc., Sinclair Capital and Sinclair Ventures, Inc.

As a result of closing on the 2002 Bank Credit Agreement, we incurred debt acquisition costs of $3.2 million and recognized an extraordinary loss of $4.2 million, net of tax benefit of $2.4 million. The extraordinary loss represents the write-off of certain debt acquisition costs associated with indebtedness replaced by the new facility. The extraordinary loss was computed based on the guidance of EITF No. 96-19 *Debtor's Accounting for a Modification of Exchange of Debt Instrument* of EITF No. 98-14 *Debtor's Accounting for changes in Line of Credit or Revolving Debt Arrangement.*

On December 31, 2002 we closed on an additional $125 million Term Loan Facility repayable in consecutive quarterly installments, amortizing 0.25% per quarter, commencing June 30, 2004 continuing through its maturity on December 31, 2009. The proceeds from this additional borrowing, together with $125 million added on to our $300 million 8% Senior Subordinated Notes due 2012 and cash on hand was used to redeem our 8.75% Senior Subordinated Notes due 2007.

The weighted average interest rates of the 2002 Bank Credit Agreement during 2002 and as of December 31, 2002 were 5.14% and 4.12%, respectively. During 2002, the interest expense relating to the Bank Credit Agreements was $27.9 million.

8.75% Senior Subordinated Notes Due 2007 and 2002 Tender Offer:

In December 1997, the Company completed an issuance of $250 million aggregate principal amount of 8.75% Senior Subordinated Notes due 2007 (the "8.75% Notes") pursuant to a shelf registration statement and generated net proceeds to the Company of $242.8 million. Of the net proceeds from the issuance, $106.2 million was utilized to tender the Company's 1993 Notes with the remainder retained for general corporate purposes.

Interest on the 8.75% Notes is payable semiannually on June 15 and December 15 of each year. Interest expense was $20.2 for the year ended December 31, 2002 and $21.9 million for each of the years ended December 31, 2001 and 2000. The 8.75% Notes were issued under an Indenture among SBG, its subsidiaries (the guarantors) and the trustee. Costs associated with the offering totaled $5.8 million, including an underwriting discount of $5.0 million. These costs were capitalized and were being amortized over the life of the debt.

During December 2002, we completed a tender offer of $213.0 million aggregate principle amount of the 8.75% Notes ("2002 Tender Offer"). Total consideration per $1,000 principle amount note tendered was $1,043.74 resulting in total consideration paid to consummate the Tender Offer of $223.2 million. Also in December 2002, we redeemed the remaining 8.75% Notes for total consideration of $39.0 million. The Tender Offer and redemption were funded through the issuance of a $125 million add-on to our existing 8.0% $300 million Senior Subordinated Notes due 2012, a $125 million additional funding on our Term Loan B Facility, a draw down on our revolving line of credit of $7.0 million and cash on hand for a total consideration paid of $262.2 million. We recognized an extraordinary loss of $2.5 million, net of tax benefit of $1.4 million, representing a write-off of the previous debt acquisition costs of $3.2 million and consideration of $0.7 million.

9% Senior Subordinated Notes Due 2007:

In July 1997, the Company completed an issuance of $200 million aggregate principal amount of 9% Senior Subordinated Notes due 2007 (the "9% Notes"). The Company utilized $162.5 million of

the approximately $195.6 million net proceeds of the issuance to repay outstanding revolving credit indebtedness and utilized the remainder to fund acquisitions.

Interest on the 9% Notes is payable semiannually on January 15 and July 15 of each year, commencing January 15, 1998. Interest expense was $16.2 million, $18.0 million and $18.0 million for each of the three years ended December 31, 2002, 2001 and 2000, respectively. The 9% Notes were issued under an Indenture among SBG, its subsidiaries (the guarantors) and the trustee. Costs associated with the offering totaled $4.8 million, including an underwriting discount of $4.0 million. These costs were capitalized and were being amortized over the life of the debt.

On November 8, 2002 the 9% Notes were redeemed for an aggregate principal amount of $200 million. The redemption occurred through the issuance of a $125 million add-on to our 8% $300 million Senior Subordinated Notes due 2012 and available cash on hand for total consideration of $218.5 million including accrued interest of $7.2 million. We recognized an extraordinary loss of $2.4 million, net of deferred taxes of $1.3 million, representing a write-off of the previous debt acquisition costs of $2.3 million and consideration of $1.4 million.

10% Senior Subordinated Notes Due 2005

In August 1995, the Company completed an issuance of $300 million aggregate principal amount of 10% Senior Subordinated Notes (the "1995 Notes"), due 2005, generating net proceeds to the Company of $293.2 million. The net proceeds of this offering were utilized to repay outstanding indebtedness under the then existing Bank Credit Agreement of $201.8 million with the remainder being retained and eventually utilized to make payments related to certain acquisitions consummated during 1996. Interest on the 1995 Notes was payable semiannually on March 30 and September 30 of each year. Interest expense was $28.3 million for the year ended December 31, 2001 and $30 million for the years ended December 31, 2000. The 1995 Notes were issued under an indenture among SBG, its subsidiaries (the guarantors) and the trustee. Costs associated with the offering totaled $6.8 million, including an underwriting discount of $6.0 million. These costs were capitalized and were being amortized over the life of the debt.

In December 2001, the Company redeemed the $300 million aggregate principal amount of the 1995 Notes for a total consideration of $318.3 million, including accrued interest of $6.1 million. The Company recognized an extraordinary loss of $9.5 million, net of a tax benefit of $5.2 million. The extraordinary loss represented a write-off of the previous debt acquisition costs of $2.5 million and consideration of $12.2 million.

8.75% Senior Subordinated Notes Due 2011

In December 2001, the Company completed an issuance of $310 million aggregate principal amount of 8.75% Senior Subordinated Notes (the "2002 Notes"), due 2011, generating net proceeds to the Company of $306.2 million. The net proceeds of this offering were utilized to repay the 1995 Notes. Interest on the 2001 Notes is payable semiannually on June 15th and December 15th of each year. Interest expense was $27.0 million and $1.7 million for the years ended December 31, 2002 and 2001, respectively. The 2001 Notes were issued under an indenture among SBG, its subsidiaries (the guarantors) and the trustee. Costs associated with the offering totaled $4.1 million, including an underwriting discount of $3.8 million. These costs were capitalized and are being amortized over the

life of the debt. Based on the quoted market price, the fair value of the 2001 Notes as of December 31, 2002 was $335.1 million.

8% Senior Subordinated Notes Due 2012

In March 2002, we completed an issuance of $300.0 million aggregate principal amount of 8% Senior Subordinated Notes (the 2002 Notes), due 2012, generating gross proceeds to us of $300.0 million. The gross proceeds of this offering were utilized to repay $300.0 million of the Term Loan Facility. We recognized an extraordinary loss of $0.7 million, net of a tax benefit of $0.4 million. The extraordinary loss represented the write-off of certain debt acquisition costs associated with indebtedness replaced by the 2002 Notes. Interest on the 2002 Notes is payable semiannually on March 15 and September 15 of each year, beginning September 15, 2002. The 2002 Notes were issued under an indenture among SBG, certain of its subsidiaries (the guarantors) and the trustee. Net costs associated with the offering totaled $3.4 million. These costs were capitalized and are being amortized to interest expense over the term of the 2002 Notes. Based on the quoted market price, the fair value of the 8% Senior Subordinated Notes Due 2012 was $335.1 million at December 31, 2002.

On November 8, 2002, we completed an issuance of $125.0 million aggregate principal amount of 8% Senior Subordinated Notes due 2012 at a price of 100.5% of par, plus accrued interest from September 15, 2002 to November 7, 2002. After deducting discount and commission and estimated expenses of the offering of $1.9 million, we received approximately $125.8 million from the sale of the notes. We used the net proceeds together with available cash on hand and a draw down of $10.0 million on the revolving line of credit under the 2002 Bank Credit Agreement, to redeem our existing 9% Senior Subordinated Notes including an early redemption premium of $9.0 million and accrued interest of $7.2 million. Net costs associated with the offering totaled $1.6 million. These costs were capitalized and are being amortized to interest expense over the term of the 2002 notes. Based on the quoted market price, the fair value of 8% Senior Subordinated Notes due 2012 add-on

issuance was $130.0 million at December 31, 2002.

On December 31, 2002, we completed an add-on issuance of $125.0 million aggregate principle amount of 8% Senior Subordinated Notes due 2012 at a premium of $3.8 million. We received net proceeds of approximately $130.4 million from the sale of the notes. We used the net proceeds together with additional funding from our term loan of $125 million, a draw down of $7.0 million on the revolving line of credit under the 2002 Bank Credit Agreement and available cash on hand of $0.2 million, to redeem our existing 8.75% Senior Subordinated Notes due 2007, including an early redemption premium of $10.9 million, net costs associated with the offering totaled $1.7 million. Of these costs, $1.3 million were capitalized and are being amortized to interest expense over the term of the 2002 notes. Based on the quoted market price, the fair value of the 8% Senior Subordinated Notes due 2012 add-on issuance was $128.8 million at December 31, 2002.

Guarantors of Senior Subordinated Notes

The guarantors of the registered securities above are 100% owned by the parent and are comprised of certain of our subsidiaries whose guarantees are full and unconditional and joint and several. Those subsidiaries who are not guarantors of the securities (non-guarantors) are minor and our parent company has no independent assets or operations as defined by SEC rules. Neither the parent nor the guarantors have any significant restrictions on their ability to obtain funds from their subsidiaries in the form of dividends or loans.

Summary

Notes payable, capital leases, the 1998 Bank Credit Agreement as amended, and the 2002 Bank Credit Agreement consisted of the following as of December 31, 2002 and 2001 (in thousands):

	2002	2001
Bank Credit Agreement, Term Loan	$ 500,000	$ 500,000
Bank Credit Agreement, Revolving Credit Facility	52,000	364,000
8.75% Senior Subordinated Notes, due 2007		250,000
9% Senior Subordinated Notes, due 2007		200,000
8.75% Senior Subordinated Notes, due 2011	310,000	310,000
Note payable of consolidated entity (Cunningham)	35,000	
8% Senior Subordinated Notes, due 2012	550,000	
Capital leases	43,763	18,465
Installment note for certain real estate interest at 8.0%	61	70
	1,490,824	1,642,535
Less: Discount on 8.75% Senior Subordinated notes, due 2007		(585)
Plus: Premium on 8% Senior Subordinated Notes, due 2012	4,375	
Plus: SFAS No. 133 derivatives, net	23,783	3,370
Less: Current portion	(292)	(182)
	$ 1,518,690	$ 1,645,138

Indebtedness under the notes payable, capital leases and 2002 Bank Credit Agreement as of December 31, 2002 mature as follows (in thousands):

	Notes and 2002 Bank Credit Agreement	Capital Leases	Total
2003	$	$ 4,162	$ 4,162
2004	3,750	4,120	7,870
2005	5,000	4,214	9,214
2006	5,000	4,307	9,307
2007	5,000	4,398	9,398

	Notes and 2002 Bank Credit Agreement	Capital Leases	Total
2008 and thereafter	1,428,250	100,331	1,528,581
Total minimum payments	$ 1,447,000	$ 121,532	$ 1,568,532
Plus: SFAS No. 133 derivatives, net	23,783		23,783
Plus: Premium on 8 Senior Subordinated Notes due 2012 P	4,375		4,375
Less: Amount representing interest		(77,708)	(77,708)
	$ 1,475,158	$ 43,824	$ 1,518,982

Substantially all of the Company's stock in its wholly owned subsidiaries has been pledged as security for notes payable and commercial bank financing.

As of December 31, 2002, we had 32 capital leases including 26 tower leases, four building leases, an LMA lease and a computer hardware lease. All of our tower leases will expire within the next 30 years, the building leases will expire within the next 13 years, the LMA lease will expire within the next six years and our computer hardware lease will expire within the next year. Most of our leases have a 5-10 year renewal option and it is expected that these leases will be renewed or replaced within the normal course of business.

5. NOTES AND CAPITAL LEASES PAYABLE TO AFFILIATES:

Notes and capital leases payable to affiliates consisted of the following as of December 31, 2002 and 2001 (in thousands):

	2002	2001
Subordinated installment notes payable to former majority owners, interest 8.75%, principal payments in varying amounts due annually beginning October 1991, with a balloon payment due at maturity in May 2005	$ 4,244	$ 5,395
Capital lease for building, interest at 7.93%	2,041	2,448
Capital lease for building, interest at 6.62%	6,652	7,323
Capital leases for broadcasting tower facilities, interest at 9.0%	5,404	2,782
Capitalization of time brokerage agreements, interest at 6.20% to 8.25%	8,611	17,816
Capital leases for building and tower, interest at 8.25%	6,036	4,546
	32,988	40,310
Less: Current portion	(4,157)	(7,086)
	$ 28,831	$ 33,224

Notes and capital leases payable to affiliates as of December 31, 2002 mature as follows (in thousands):

2003	$ 6,602
2004	6,643
2005	7,580
2006	5,238
2007	4,462
2008 and thereafter	24,144
Total minimum payments due	54,669

Less: Amount representing interest	(21,681)
Present value of future notes and capital lease payments	$ 32,988

6. PROGRAM CONTRACTS PAYABLE:

Future payments required under program contracts payable as of December 31, 2002 were as follows (in thousands):

2003	$ 121,396
2004	66,530
2005	45,852
2006	12,095
2007	181
Total	$ 246,054
Less: Current portion	(121,396)
Long-term portion of program contracts payable	$ 124,658

Included in the current portion amounts are payments due in arrears of $23.4 million. In addition, we have entered into non-cancelable commitments for future program rights aggregating $59.9 million as of December 31, 2002.

We perform a net realizable value calculation for each of our non-cancelable commitments in accordance with SFAS No. 63, *Financial Reporting by Broadcasters*. We utilize sales information to estimate the future revenue of each commitment and measure that amount against the amount of the commitment. If the estimated future revenue is less than the amount of the commitment, the value of the asset is adjusted.

We have estimated the fair value of our program contract payables and non-cancelable commitments at approximately $233.6 million and $53.6 million, respectively, as of December 31, 2002, and $220.8 million and $91.3 million, respectively, as of December 31, 2001. These estimates were based on future cash payments discounted at our current borrowing rate.

7. COMPANY OBLIGATED MANDATORILY REDEEMABLE PREFERRED SECURITIES OF SUBSIDIARY TRUST, COMMON STOCK AND PREFERRED STOCK:

1997 Offering of Company Obligated Mandatorily Redeemable Preferred Securities of Subsidiary Trust

In March 1997, the Company completed a private placement of $200 million aggregate liquidation value of 11.625% High Yield Trust Offered Preferred Securities (HYTOPS) of Sinclair Capital, a subsidiary trust of the Company. The HYTOPS were issued March 12, 1997, mature March 15, 2009, and provide for quarterly distributions to be paid in arrears beginning June 15, 1997. The HYTOPS were sold to "qualified institutional buyers" (as defined in Rule 144A under the Securities Act of 1933, as amended) and a limited number of institutional "accredited investors" and the offering was exempt from registration under the Securities Act of 1933, as amended (the Securities Act), pursuant to Section 4(2) of the Securities Act and Rule 144A thereunder. The Company utilized $135.0 million of the approximately $192.8 million net proceeds of the private placement to repay outstanding debt and retained the remainder for general corporate purposes.

Pursuant to a Registration Rights Agreement entered into in connection with the private placement of the HYTOPS, the Company offered holders of the HYTOPS the right to exchange the HYTOPS for new HYTOPS having the same terms as the existing securities, except that the exchange

of the new HYTOPS for the existing HYTOPS has been registered under the Securities Act. On May 2, 1997, the Company filed a registration statement on Form S-4 with the Commission for the purpose of registering the new HYTOPS to be offered in exchange for the aforementioned

existing HYTOPS issued by the Company in March 1997 (the "Exchange Offer"). The Company's Exchange Offer was closed and became effective August 11, 1997, at which time all of the existing HYTOPS were exchanged for new HYTOPS. Annual preferred dividends payable to the holders of HYTOPS are recorded as "Subsidiary trust minority interest expense" in the accompanying financial statements and was $23.3 million for each of the three years ended December 31, 2002, 2001, and 2000.

Common Stock

Holders of Class A Common Stock are entitled to one vote per share and holders of Class B Common Stock are entitled to ten votes per share except for votes relating to "going private" and certain other transactions. The Class A Common Stock and the Class B Common Stock vote altogether as a single Class except as otherwise may be required by Maryland law on all matters presented for a vote. Holders of Class B Common Stock may at any time convert their shares into the same number of shares of Class A Common Stock.

Preferred Stock

During 1997, the Company completed a public offering of 3,450,000 shares of Series D Convertible Exchangeable Preferred Stock (the "1997 Preferred Stock Offering"). The Convertible Exchangeable Preferred Stock has a liquidation preference of $50 per share and a stated annual dividend of $3.00 per share payable quarterly out of legally available funds and are convertible into shares of Class A Common Stock at the option of the holders thereof at a conversion price of $22.813 per share, subject to adjustment. The Convertible Exchangeable Preferred Stock is convertible into 7,561,644 shares of Class A common stock, all of which has been reserved by the company for future issuance. The shares of Convertible Exchangeable Preferred Stock are exchangeable at the option of the Company, for 6% Convertible Subordinated Debentures of the Company, due 2012, and are redeemable at the option of the Company on or after September 20, 2000 at specified prices plus accrued dividends.

8. DERIVATIVE INSTRUMENTS:

The Company enters 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 of our fixed rate debt. In addition, we have entered into put and call option derivative instruments relating to the Company's Class A Common Stock in order to hedge the possible dilutive effect of employees exercising stock options pursuant to the Company's stock option plans.

Statement of Financial Accounting Standard No. 133

On January 1, 2001, the Company adopted SFAS No. 133, *Accounting for Derivative Instruments and Hedging* Activities, SFAS No. 137, *Accounting for Derivative Instruments and Hedging Activities Deferral of the Effective Date of SFAS 133* and SFAS No. 138, *Accounting for Certain Derivative Instruments and Certain Hedging Activities*, an amendment of FASB Statement No. 133. SFAS No. 133,

as amended, establishes accounting and reporting standards requiring that every derivative instrument be recorded in the balance sheet as either an asset or liability measured at its fair value. SFAS No. 133 requires that changes in the derivative instrument's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. Special accounting for qualifying hedges allows a derivative instrument's gains and losses to offset related results on the hedged item in the income statement, to the extent effective, and requires that a company must formally document, designate, and assess the effectiveness of transactions that receive hedge accounting. SFAS No. 133 had the following impact on the Company's financial statements.

Our existing interest rate swap agreements at January 1, 2001 did not qualify for special hedge accounting treatment under SFAS No. 133. As a result, both of the Company's interest rate swap agreements were reflected as liabilities on January 1, 2001 at their fair market value of $7.1 million in the aggregate, including $1.0 million of bond discount related to the transition adjustment to record the Company's fixed-to-floating rate derivative instrument. The bond discount resulting from the implementation of SFAS No. 133 is being amortized to interest expense through December 15, 2007, the termination date of the swap agreement. The floating-to-fixed rate derivative instrument was recorded at its fair value of $6.1 million on December 29, 2001 as a result of an amendment.

SFAS No. 133 required deferred gains and losses on previously terminated floating-to-fixed rate hedges to be presented as other comprehensive income or loss on the Consolidated Balance Sheet. As a result, on January 1, 2001, the Company reclassified the $2.8 million net balance of deferred losses to accumulated other comprehensive loss, net of a deferred tax benefit of $1.5 million and is amortizing this balance to interest expense over the original terms of the previously terminated and modified swap agreements, which expire from July 9, 2001 to

June 3, 2004. The Company amortized $1.3 million and $0.3 million from accumulated other comprehensive loss and deferred tax asset to interest expense during 2002 and 2001, respectively.

Interest Rate Derivative Instruments

During the twelve months ended December 31, 2002 and 2001, we held four derivative instruments:

An interest rate swap agreement with a notional amount of $575 million, which expires on June 5, 2006. The swap agreement requires the Company to pay a fixed rate which is set in the range of 5.95% to 7% and receive a floating rate based on the three month London Interbank Offered Rate (LIBOR) (measurement and settlement is performed quarterly). This swap agreement is reflected as a derivative obligation based on its fair value of $71.4 million and $40.5 million as a component of other long-term liabilities in the accompanying consolidated balance sheets as of December 31, 2002 and 2001, respectively. This swap agreement does not qualify for hedge accounting treatment under SFAS No. 133; therefore, changes in its fair market value are reflected currently in earnings as gain (loss) on derivative instruments. The Company incurred an unrealized loss of $30.9 million and $34.4 million during 2002 and 2001, respectively, related to this instrument.

In March 2002, we entered into two interest rate swap agreements with notional amounts totaling $300 million which expire on March 15, 2012 in which we receive a fixed rate of 8% and

pay a floating rate based on LIBOR (measurement and settlement is performed quarterly). These swaps are accounted for as a hedge of our 8% debenture in accordance with SFAS No. 133 whereby changes in the fair market value of the swaps are reflected as adjustments to the carrying amount of the debenture. These swaps are reflected in the accompanying balance sheet as a derivative asset and as a premium on the 8% debenture based on their fair value of $26.3 million.

In June 2001, we entered into an interest rate swap agreement with a notional amount of $250 million which expires on December 15, 2007 in which the Company receives a fixed rate of 8.75% and pays a floating rate based on LIBOR (measurement and settlement is performed quarterly). This swap was accounted for as a hedge of the Company's 8.75% debenture in accordance with SFAS No. 133 whereby changes in the fair market value of the swap were reflected as adjustments to the carrying amount of the debenture. During December 2002, the Company terminated this interest rate swap agreement. We received $10.9 million upon termination, which offset the premium that we paid on the 8.75% notes redemption.

In June 2001, we entered into an interest rate swap agreement with a notional amount of $200 million which expires on July 15, 2007 in which the Company receives a fixed rate of 9% and pays a floating rate based on LIBOR (measurement and settlement is performed quarterly). This swap was accounted for as a hedge of the Company's 9% Notes in accordance with SFAS No. 133 whereby changes in the fair market value of the swap were reflected as adjustments to the carrying amount of the debenture. During November 2002, the Company terminated this interest rate swap agreement and received $9.0 million, which offset the premium that we paid on the 9% notes redemption.

The counterparties to these agreements are international financial institutions. The Company estimates the net fair value of these instruments at December 31, 2002 to be a liability of $45.1 million. The fair value of the interest rate swap agreements is estimated by obtaining quotations from the financial institutions, which are a party to the Company's derivative contracts. The fair value is an estimate of the net amount that the Company would pay on December 31, 2002 if the contracts were transferred to other parties or cancelled by the Company.

During May 2000, the Company terminated an interest rate swap with a notional amount of $250 million and recognized a net mark-to-market gain of $2.2 million which is reflected in the accompanying Consolidated Statement of Operations as gain (loss) on derivative instruments.

The Company experienced losses of $2.6 million during 2000 as a result of terminating two of its fixed-to-floating interest rate swap agreements. The losses resulting from these terminations are reflected as a discount on the Company's fixed rate debt and are being amortized to interest expense through December 15, 2007, the expiration date of the terminated swap agreements. For the year ended December 31, 2002, amortization of $0.4 million of the discount was recorded to interest expense.

During 2000, the Company experienced gains of $1.9 million as a result of terminating several of its floating-to-fixed interest rate swap agreements. In addition, during 2000 the Company experienced a loss of $6.1 million as a result of modifying the terms of its remaining floating-to-fixed interest rate swap agreement, as discussed above. These deferred gains and losses are being amortized to interest

income and expense through the expiration dates of the terminated or modified swap agreements, which expire from July 9, 2001 to June 3, 2004. For the year ended December 31, 2000, amortization of $0.1 million of the deferred gain was recorded to interest expense. No amortization of the deferred loss was recorded because the loss occurred on the last business day of 2000. These balances were transferred to other comprehensive loss on January 1, 2001, as described above.

Treasury Option Derivative Instrument

In August 1998, the Company entered into a treasury option derivative contract (the "Option Derivative"). The Option Derivative contract provided for 1) an option exercise date of September 27, 2000, 2) a notional amount of $300 million and 3) a five-year treasury strike rate of 6.4%. Upon the execution of the Option Derivative in 1998, the Company received a cash payment representing an option premium of $9.5 million, which was recorded in "Other long-term liabilities" in the accompanying Consolidated Balance Sheets. The Company adjusted its liability to the present value of the future payments of the settlement amounts based on the forward five-year treasury rate at the end of each accounting period. These adjustments are reflected on the Company's Consolidated Statements of Operations as "Unrealized gains or losses on derivative instruments".

On September 27, 2000, the yield in the five-year treasury rate was 5.906% resulting in a loss of $0.3 million for the year ended December 31, 2000. In addition, the Company made a cash settlement payment of $3.0 million upon the expiration of the Option Derivative contract which is equal to the notional amount of $300 million multiplied by the strike rate (6.14%) less the settlement rate (5.906%) discounted over a five-year period. The Company realized a $6.4 million cash profit over the life of the transaction.

Equity Put And Call Options

As of December 31, 2002, the Company had no outstanding put and call options.

1997 Options

In April 1997, the Company entered into put and call option contracts related to its common stock for the purpose of hedging the dilution of the common stock upon the exercise of stock options granted. The Company entered into 1,100,000 European style (that is, exercisable on the expiration date only) put options for common stock with a strike price of $12.89 per share which provide for settlement in cash or in shares, at the election of the Company. The Company entered into 1,100,000 American style (that is, exercisable any time on or before the expiration date) call options for common stock with a strike price of $12.89 per share which provide for settlement in cash or in shares, at the election of the Company. During the year ended December 31, 2000, upon the settlement of these options, the Company repurchased 1,100,000 shares of common stock and made payments of $14.2 million.

1998 Options

In July 1998, the Company entered into put and call option contracts related to the Company's common stock (the "July Options"). In September 1998, the Company entered into additional put and

call option contracts related to the Company's common stock (the "September Options"). These option contracts allow for settlement in cash or net physically in shares, at the election of the Company. The Company entered into these option contracts for the purpose of hedging the dilution of the Company's common stock upon the exercise of stock options granted.

The July Options included 2,700,000 call options for common stock and 2,700,000 put options for common stock, with a strike price of $33.27 and $28.93 per common share, respectively. The September Options included 467,000 call options for common stock and 700,000 put options for common stock, with a strike price of $28 and $16.0625 per common share, respectively. For the year ended December 31, 1998,

option premium payments of $12.2 million and $0.7 million were made relating to the July and September Options, respectively. The Company recorded these premium payments as a reduction of additional paid-in capital. To the extent that the Company entered into put options related to its common stock, the additional paid-in capital amounts were reclassified accordingly and reflected as Equity Put Options in the accompanying consolidated balance sheets as of December 31, 1999. For the year ended December 31, 1999, the Company recorded receipts of $1.25 million relating to the 1998 September Options as an increase in additional paid-in capital. Additionally, 200,000 of the 1998 September Options were retired during 1999.

The 1998 July Options and September Options were exercised during March 2000. The Company repurchased 208,400 shares and made a net payment of $1.6 million related to this settlement. The 1998 September Options were amended during March 2000 to include 2.1 million equity put options at a put strike price of $10.125. The Company settled the 1998 September options during December 2000 and repurchased 1,430,000 shares of common stock and made a payment of $14.5 million related to this settlement. On April 10, 2001, this option became exercisable and, as a result, the contract was settled for $7.7 million in cash on April 16, 2001.

9. INCOME TAXES:

The Company files a consolidated federal income tax return and separate company state tax returns. The provision (benefit) for income taxes consisted of the following for the years ended December 31, 2002, 2001 and 2000 (in thousands):

	2002	2001	2000
(Benefit from) provision for income taxes continuing operations	$ 1,369	$ (51,875)	$ 3,355
Provision for income taxes discontinued operations	347	193	4,711
Provision for income taxes sale of discontinued operations	8,175		69,870
Benefit from income taxes extraordinary item	(5,531)	(7,800)	
Benefit from income taxes cumulative adjustment for change in accounting principle	$ (30,383)		
	$ (26,023)	$ (59,482)	$ 77,936
Current:			
Federal	$ (37,357)	$ (47,880)	$ 58,079
State	3,160	(910)	13,439
	$ (34,197)	$ (48,790)	$ 71,518
Deferred:			
Federal	7,894	(9,792)	5,829
State	280	(900)	589
	8,174	(10,692)	6,418
	$ (26,023)	$ (59,482)	$ 77,936

The following is a reconciliation of federal income taxes at the applicable statutory rate to the recorded provision (benefit) from continuing operations:

	2002	2001	2000
Statutory federal income taxes	35.0%	(35.0)%	(35.0)%
Adjustments			
State income and franchise taxes, net of federal effect	14.0%	0.4%	7.0%

	2002	2001	2000
Goodwill amortization		7.2%	39.0%
Non-deductible expense items	17.1%	0.6%	6.5%
Reversal of income tax accruals		(3.8)%	
Change in valuation allowance	(24.5)%	(4.0)%	
Effect of changes in state tax rates on deferred taxes	(13.2)%	(0.1)%	
Other	(2.2)%	3.4%	(1.9)%
Provision (benefit) for income taxes	26.2%	(31.3)%	15.6%

Temporary differences between the financial reporting carrying amounts and the tax basis of assets and liabilities give rise to deferred taxes. We had a net deferred tax liability of $167.2 million and $155.5 million as of December 31, 2002 and 2001, respectively.

The Company's remaining federal and state net operating losses will expire during various years from 2012 to 2022, and in certain cases, are subject to annual limitations under Internal Revenue Code Section 382 and similar state provisions. The tax effects of these net operating losses are recorded in the deferred tax accounts in the accompanying consolidated balance sheets.

Total deferred tax assets and deferred tax liabilities as of December 31, 2002 and 2001 were as follows (in thousands):

	2002	2001
Deferred Tax Assets:		
Accruals and reserves	$ 12,259	$ 14,418
Net operating losses	63,593	35,539
Other comprehensive income net deferred tax assets	913	1,487
Other	15,128	20,232
	$ 91,893	71,676
Valuation allowance for deferred tax assets	(48,825)	(25,724)
	$ 43,068	$ 45,952
Deferred Tax Liabilities:		
FCC license	$ (37,682)	$ (45,515)
Parent Preferred Stock deferred tax liability	(25,833)	(25,833)
Fixed assets and intangibles	(141,628)	(128,334)
Cunningham net deferred tax liabilities	(1,069)	
Other	(4,064)	(1,730)
	$ (210,276)	$ (201,412)

The Company establishes valuation allowances in accordance with the provisions of SFAS No. 109, *Accounting for Income Taxes*. A valuation allowance has been provided for deferred tax assets relating to various state net operating loss ("NOL") carryforwards. The realization of deferred tax assets associated with state NOL carryforwards is dependent upon generating sufficient taxable income prior to their expiration. Management believes that there is a risk that certain of these state NOL carryforwards may expire unused and, accordingly, has established a valuation allowance against them. Although realization is not assured for the remaining deferred tax assets, management believes it is more likely than not that they will be realized through future taxable earnings or alternative tax strategies. The Company periodically reviews the adequacy of the valuation allowance and makes any necessary adjustments to the extent that management's estimates of taxable income during

the carryforward period significantly change.

In December 2001, the Internal Revenue Service (IRS) completed its examination of the Company's federal income tax returns filed through 1997. As a result of this settlement, the Company's fiscal year 2001 benefit for income taxes reflects a $6.3 million reduction of taxes provided in prior periods. The IRS has initiated an examination of federal tax returns subsequent to 1998. The Company believes that adequate accruals have been provided for all years.

10. COMMITMENTS AND CONTINGENCIES:

Litigation

Lawsuits and claims are filed against the Company from time to time in the ordinary course of business. These actions are in various preliminary stages, and no judgements or decisions have been rendered by hearing boards or courts. Management, after reviewing developments to date with legal counsel, is of the opinion that the outcome of such matters will not have a material adverse effect on the Company's consolidated financial position, consolidated results of operations or consolidated cash flows.

Operating Leases

The Company has entered into operating leases for certain property and equipment under terms ranging from three to ten years. The rent expense under these leases, as well as certain leases under month-to-month arrangements for the years ended December 31, 2002, 2001 and 2000 was approximately $5.1 million, $5.7 million and $6.8 million, respectively.

Future minimum payments under the leases are as follows (in thousands):

2003	$ 4,134
2004	3,249
2005	2,839
2006	2,511
2007	2,196
2008 and thereafter	7,782
	$ 22,711

At December 31, 2002 and 2001, the Company had an outstanding letter of credit of $1.06 million and $1.14 million, respectively, under our revolving credit facility. The letter of credit acts as a guarantee of lease payments for the property occupied by WTTA-TV in Tampa, FL pursuant to the terms and conditions of the lease agreement.

Affiliation Agreements

Sixty of the 62 television stations that SBG owns and operates or to which it provides programming services or sales services, currently operate as affiliates of FOX (20 stations), WB (19 stations), ABC (8 stations), NBC (4 stations), UPN (6 stations) or CBS (3 stations). The remaining two stations are independent. 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 the programming. In addition, networks other than FOX pay each affiliated station a fee for each network-sponsored program broadcast by the station.

We received a notice from NBC that prevented what would have otherwise been an automatic 5-year extension of the affiliation agreement for WICS/WICD (Champaign/Springfield, Illinois), which expired on June 30, 2002. Recently, we extended the term of the affiliation agreement for WICS/WICD to April 1, 2003. The agreement for WKEF-TV (Dayton, Ohio), another NBC affiliate, is also due to expire on April 1, 2003. If we do not enter into affiliation agreements to replace the expired or expiring

agreements, we may no longer be 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 attractive to our target audience.

Affiliation agreements between our stations and FOX network expired in 2001. We recently secured a long-term affiliation agreement with a term that will run through June 30, 2005 for all 20 of our FOX stations we own and operate or program under LMA agreements. In Baltimore, where Sinclair operates as the FOX affiliate and where FOX owns a television station, which operates as a UPN affiliate, both parties agreed that Sinclair would continue as the FOX affiliate for the three-year term.

In November 2002, we agreed to extend the UPN affiliation of our station WUXP-TV, Nashville, Tennessee until July 31, 2004, which is co-terminus with our other UPN agreements. In addition, the affiliation agreements of three ABC stations (WEAR-TV, in Pensacola, Florida, WCHS-TV, in Charleston, West Virginia and WXLV-TV, in Greensboro/Winston-Salem, North Carolina) have expired. As of December 31, 2002, the corresponding net book values for the affiliation agreements are $4.2 million, $2.7 million and $13.1 million, respectively. We continue to operate these stations as an ABC affiliate and the Company does not believe ABC has any current plans to terminate the affiliation of any of these stations. Upon the termination of any of the above affiliation agreements, the Company would be required to establish new affiliations with other networks or operate as an independent. At such time, the remaining value of the network affiliation asset could become impaired and the Company would be required to write down the value of the asset.

Local Marketing Agreements

A number of television stations, including certain of our stations, have entered into what have commonly been referred to as local marketing agreements or LMAs. While these agreements may take varying forms, one typical type of LMA is a programming agreement between two separately owned television stations serving a common service area, whereby the licensee of one station programs substantial portions of the broadcast day and sells advertising time during such program segments on the other licensee's station subject to ultimate editorial and other controls being exercised by the latter licensee. The licensee of the station which is being substantially programmed by another entity must maintain complete responsibility for and control over the programming, financing, personnel and operations of its broadcast station and is responsible for compliance with applicable FCC rules and policies.

In the past, a licensee could own one station and program and provide other services to another station pursuant to an LMA in the same market because LMAs were not considered attributable interests. However, under the ownership rules adopted in August 1999, LMAs are now attributable where a licensee owns a television station and programs more than 15% of the weekly broadcast time of another television station in the same market. The rules provide that LMAs entered into on or after November 5, 1996 had until August 5, 2001 to come into compliance with the ownership rules. LMAs entered into before November 5, 1996 are grandfathered until the conclusion of the FCC's 2004 biennial review. In certain cases, parties with grandfathered LMAs may be able to rely on the circumstances at the time the LMA was entered into in advancing any proposal for co-ownership of the station. We acquired 15 of the stations we had been programming pursuant to LMAs. We currently

program 11 television stations pursuant to LMAs. Of these 11 stations, three of the LMAs are not subject to divestiture because they involve stations which Sinclair could own under the duopoly rules, but either has decided not to acquire at this time or has no right to acquire, four LMAs (including an LMA with a station we have filed an application to acquire) were entered into before November 5, 1996, and four LMAs were entered into on or after November 5, 1996 (although we believe a valid position exists that one of these four LMAs was effectively entered into prior to November 5, 1996.) The FCC denied petitions for reconsideration of the duopoly rules, including a petition submitted by us. We filed a Petition for Review of the Report and Order adopting the duopoly rules in the U.S. Court of Appeals for the D.C. Circuit. In June 2001, the U.S. Court of Appeals for the D.C. Circuit granted our motion for stay of the requirement that we divest the four LMAs entered into on or after November 5, 1996 by August 5, 2001, which stay is still pending. If the company were required to divest of these stations, the intangible assets aggregating approximately $75.5 million associated with these LMA agreements may be impaired and the Company would be required to write down the value of such assets. The Company does not believe the assets of these four stations are impaired. In April 2002, the court held that parts of the television duopoly rule were arbitrary and capricious and remanded the rule to the FCC for further consideration.

In December 2001, the FCC issued a decision which, among other things, granted a number of Sinclair and Cunningham applications and dismissed our application to acquire the license of one of the stations (WBSC-TV) we program pursuant to a pre-November 5, 1996 LMA as not meeting the requirements for ownership under the new duopoly rules. We have filed a motion for reconsideration of the dismissal. In January 2002, the Rainbow/PUSH Coalition filed an appeal of the FCC's decision with the U.S. Court of Appeals for the D.C. Circuit. The stations affected by the appeal are WNUV-TV, WTTE-TV, WRGT-TV, WTAT-TV, WVAH-TV, KOKH-TV, KRRT-TV, WVTV-TV, WRDC-TV, WABM-TV, WBSC-TV, WCWB-TV, WLOS-TV and KABB-TV. Oral arguments in this matter are scheduled for the first quarter of 2003. Although we do not expect to lose these licenses, we can provide no assurances as to the outcome of the appeal.

Outsourcing Agreements

On May 1, 2002, we entered into an outsourcing agreement in which our stations in Nashville, Tennessee will provide certain sales, administrative and technical services to WNAB-TV.

We have entered into an agreement with a third party to purchase certain license and non-license television broadcast assets of WNAB-TV at our option (the Call Option) and additionally, the third party may require us to purchase these license and non-license broadcast assets at the option of the third party (the Put Option). On January 2, 2003 we made an $18 million non-refundable deposit against the purchase price of the put or call option on the non-license assets in return for a reduction in our monthly fees. Upon exercise, we may settle the Call or Put Options entirely in cash or, at our option, we may pay up to one-half of the purchase price by issuing additional shares of our Class A common stock. The Call and Put option exercise prices vary depending upon the exercise dates. The license asset Call option exercise price is $5.0 million prior to March 31, 2005, $5.6 million from March 31, 2005 until March 31, 2006 and $6.2 million after March 31, 2006. The non-license asset Call option exercise price is $8.3 million prior to March 31, 2005, $12.6 million from March 31, 2005 until March 31, 2006 and $16.0 million after March 31, 2006. The license asset Put option price is

$5.4 million from July 1, 2005 to July 31, 2005, $5.9 million from July 1, 2006 to July 31, 2006 and $6.3 million from July 1, 2007 to July 31, 2007. The non-license asset Put option price is $7.9 million from July 1, 2005 to July 31, 2005, $12.4 million from July 1, 2006 to July 31, 2006 and $16.0 million from July 1, 2007 to July 31, 2007.

On July 9, 2002, we entered into an outsourcing agreement in which a third party will provide certain sales, administrative and technical services to our station KGAN-TV in Cedar Rapids, IA, in return for a share of our combined broadcast cash flows.

11. RELATED PARTY TRANSACTIONS:

During the year ended December 31, 1993, we loaned Gerstell Development Limited Partnership (a partnership owned by Class B Stockholders) $2.1 million. The note bears interest at 6.18%, with principal payments beginning on November 1, 1994, and a final maturity date of October 1, 2013. As of December 31, 2002 and 2001, the balance outstanding was approximately $1.5 million and $1.6 million, respectively.

On September 30, 1990, we issued certain notes (the founders' notes) maturing on May 31, 2005, payable to the late Julian S. Smith and Carolyn C. Smith, former majority owners of Sinclair and the parents of class B stockholders. The founders' notes, which were issued in consideration for stock redemptions equal to 72.65% of the then outstanding stock of Sinclair, have principal amounts of $7.5 million and $6.7 million, respectively. The founders' notes include stated interest rates of 8.75%, which were payable annually from October 1990 until October 1992, then payable monthly commencing April 1993 to December 1996, and then semi-annually thereafter until maturity. The effective interest rate approximates 9.4%. The founders' notes are secured by security interests in substantially all of Sinclair's assets and subsidiaries, and are personally guaranteed by class B stockholders.

Principal and interest payments on the founders' notes is payable, in various amounts, each April and October, beginning October 1991 until October 2005, with a balloon payment due at maturity in the amount of $1.5 million. Additionally, monthly interest payments commenced April 1993 and continued until December 1996. Principal and interest paid on this founders' note was $1.6 million for the year ended December 31, 2002 and, $1.7 million for each of the years ended December 31, 2001, and 2000. At December 31, 2002, $4.2 million of this founders' note remained outstanding.

Concurrently with our initial public offering, we acquired options from certain stockholders of Cunningham that will grant us the right to acquire, subject to applicable FCC rules and regulations, 100% of the capital stock of Cunningham. The Cunningham option exercise price is based on a formula that provides a 10% annual return to Cunningham. Cunningham is the owner-operator and FCC licensee of WNUV-TV in Baltimore, WRGT-TV in Dayton, WVAH-TV in Charlston, WV, WTAT-TV in Charlston, SC, WBSC-TV in Asheville/Greenville/Spartanburg and WTTE-TV in Columbus. The Company has entered into five-year LMA agreements (with five-year renewal terms at the Company's option) with Cunningham pursuant to which the Company provides programming to Cunningham for airing on WNUV-TV, WRGT-TV, WVAH-TV, WTAT-TV, WBSC-TV and WTTE-TV. During the years ended December 31, 2002, 2001 and 2000, the Company made payments of $4.0 million, $11.8 million and $11.3 million, respectively, to Cunningham under these LMA agreements.

In connection with our sale of WCWB in Pittsburgh to WPTT, Inc., WPTT, Inc. issued to us a 15-year senior secured term note of $6.0 million (the WPTT Note). We subsequently sold the WPTT Note to the late Julian S. Smith and Carolyn C. Smith, the parents of the controlling stockholders and both former stockholders of Sinclair, in exchange for the payment of $50,000 and the issuance of a $6.6 million note receivable, which bears interest at 7.21% per annum. During the year ended December 31, 2001, we received $0.5 million in interest payments on this note. At December 31, 2001, the balance on this note was $6.6 million. We acquired the assets of WCWB-TV and the note was paid in full on January 7, 2002.

During the years ended December 31, 2002, 2001 and 2000, we from time to time entered into charter arrangements to lease aircraft owned by certain Class B Stockholders. During the years ended December 31, 2002, 2001 and 2000, we incurred expenses of approximately $0.2 million, $41,000 and $0.2 million related to these arrangements, respectively.

Certain assets used by the Company and its operating subsidiaries are leased from Cunningham Communications Inc., Keyser Investment Group, Gerstell Development Limited Partnership, and Beaver Dam, LLC (entities owned by the Class B Stockholders). Lease payments made to these entities were $3.6 million, $3.1 million, and $2.8 million for the years ended December 31, 2002, 2001 and 2000, respectively.

On December 30, 2002, we invested $20 million in Summa Holdings, Ltd. (Summa), resulting in a 17.5% equity interest. Summa is a holding company, which owns automobile dealerships, retail tire franchises and a leasing company. David D. Smith, our President and Chief Executive Officer, has a controlling interest in Summa and is a member of the Board of Directors. We will have significant influence by holding a board seat (in addition to the board seat held by David D. Smith); therefore we will account for this investment under the equity method of accounting.

We sold advertising time to Summa on WBFF-TV and WNUV-TV and received payments totaling $0.3 million during the twelve months ended December 31, 2002 and $0.2 million during each of the twelve months ended December 31, 2001 and 2000.

In August 1999, Allegiance Capital Limited Partnership (Allegiance), with the controlling stockholders, our Chief Financial Officer and Executive Vice President and Allegiance Capital Management Corporation (ACMC), the general partner, established a small business investment company. ACMC, as the general partner, controls all decision making, investing, and management of operations in exchange for a monthly management fee based on actual expenses incurred which currently averages approximately $35,600 paid by the limited partners. We, along with the other limited partners, have committed to investing up to a combined total of $15.0 million of which $7.5 million was invested as of December 31, 2002.

12. ACQUISITIONS AND DISPOSITIONS:

Montecito Acquisition. In February 1998, the Company entered into a Stock Purchase Agreement with Montecito and its stockholder to acquire all of the outstanding stock of Montecito, which owns the FCC license for television broadcast station KFBT-TV. The FCC granted approval of the transaction and on April 18, 2000 the Company completed the purchase of the outstanding stock of Montecito for a purchase price of $33.0 million.

Emmis Disposition. In June 2000, the Company settled its litigation with Emmis Communication Corporation (Emmis) and former CEO-designate Barry Baker regarding the sale of its St. Louis broadcast properties. As a result of the settlement, the purchase option of the Company's St. Louis broadcast properties has been terminated and a subsequent agreement was entered into whereby the Company would sell its St. Louis radio properties to Emmis. In October 2000, the Company completed the sale of its St. Louis radio properties to Emmis for $220.0 million and retained its St. Louis television station, KDNL-TV.

Entercom Disposition. On July 20, 2000 the Company completed the sale of four radio stations in Kansas City to Entercom Communications Corporation (Entercom)for an aggregate purchase price of $126.6 million in cash. The stations sold were KCFX-FM, KQRC-FM, KCIY-FM, and KXTR-FM. In November 2000, the Company completed the sale of WKRF-FM in Wilkes-Barre, Pennsylvania to Entercom for $0.6 million.

WNYO Acquisition. In August 2000, the Company entered into an agreement to purchase the stock of Grant Television, Inc., the owner of WNYO-TV in Buffalo, New York, for a purchase price of $51.5 million. In October 2000, the Company completed the stock acquisition of Grant, obtaining the non-license assets of WNYO-TV and began programming the television station under local marketing agreement. The acquisition was accounted for under the purchase method of accounting whereby the purchase price was allocated to property and programming assets, definite-lived intangible broadcast assets and other intangible assets for $2.9 million, $3.9 million and $39.8 million, respectively. In December 2001, the Company received FCC approval and on January 25, 2002, the Company completed the purchase of the FCC license and related assets of WNYO-TV for a purchase price of $6.7 million.

Cunningham/WPTT, Inc. Acquisition. On November 15, 1999, the Company entered into an agreement to purchase substantially all of the assets of television stations WCWB-TV, Channel 22, Pittsburgh, Pennsylvania, from the owner of that television station, WPTT, Inc. In December 2001, the Company received FCC approval and on January 7, 2002, the Company closed on the purchase of the FCC license and related assets of WCWB-TV for a purchase price of $18.8 million.

On November 15, 1999, the Company entered into five separate plans and agreements of merger, pursuant to which it would acquire through merger with subsidiaries of Cunningham, television broadcast stations WABM-TV, Birmingham, Alabama, KRRT-TV, San Antonio, Texas, WVTV-TV, Milwaukee, Wisconsin, WRDC-TV, Raleigh, North Carolina, and WBSC-TV (formerly WFBC-TV), Anderson, South Carolina. The consideration for these mergers is the issuance to Cunningham of shares of Class A Common voting Stock of the Company. In December 2001, the Company received FCC approval on all the transactions except for WBSC-TV. Accordingly, on February 1, 2002, the Company closed on the purchase of the FCC license and related assets of WABM-TV, KRRT-TV, WVTV-TV and WRDC-TV. The total value of the shares issued in consideration for the approved mergers was $7.7 million.

Mision Acquisition. Pursuant to our merger with Sullivan Broadcast Holdings, Inc. which was effective July 1, 1998, the Company acquired options to acquire television broadcast station WUXP-TV in Nashville, Tennessee from Mission Broadcasting I, Inc. and television broadcast station WUPN-TV in Greensboro, North Carolina from Mission Broadcasting II, Inc. On November 15, 1999, the Company

exercised its option to acquire both of the foregoing stations. In December 2001, the Company received FCC approval and in January 2002, the Company closed on the purchase of the FCC licenses and related assets of WUXP-TV and WUPN-TV for the assumption of notes payable aggregating $4.2 million and $0.1 million of cash. Prior to closing, the Company programmed these stations pursuant to an LMA.

Sullivan Acquisition. In December 2001, the Company received FCC approval to acquire 100% of the stock of Sullivan Broadcasting Company II, Inc. and Sullivan Broadcasting Company IV, Inc. which, in the aggregate, own the FCC license and related assets of six television stations. In January 2002, the Company completed the purchase of the FCC license and related assets of WZTV-TV, WUTV-TV, WXLV-TV, WRLH-TV, WMSN-TV and KOKH-TV. Prior to closing, the Company programmed these stations pursuant to LMA's. As consideration for the purchase of the FCC license and related assets of KOKH, the Company forgave a note receivable to Sullivan IV in the amount of $16.6 million.

WUHF Acquisition. In December 1999, the Company entered into a stock purchase agreement with BS&L Broadcasting, Inc. (BS&L) and its sole shareholder to acquire the stock of BS&L, the licensee of WUHF-TV, Rochester, New York. BS&L acquired the license of WUHF-TV from Sullivan II. One of the conditions to our acquisition of the stock of BS&L was the receipt of FCC approval. On April 30, 2002, we acquired the stock of BS&L Broadcasting, Inc. (BS&L), from its sole shareholder, which owned the FCC license and related assets of WUHF-TV in Rochester, New York. As consideration for the purchase of the FCC license and related assets, we forgave a note receivable from BS&L in the amount of $22.0 million. Prior to the completion of the acquisition, we programmed WUHF-TV pursuant to a local marketing agreement.

WBSC LMA. The license assets of WBSC-TV Greenville/Spartansburg/Anderson, South Carolina, are currently owned by Cunningham and we intend to acquire these assets upon FCC approval. The FCC recently denied our application to acquire the license for this station based on the "eight voices test" and we have filed a motion for reconsideration of that decision.

13. DISCONTINUED OPERATIONS:

In July 1999, the Company entered into an agreement to sell 46 of its radio stations in nine markets to Entercom for $824.5 million in cash (adjusted for closing costs). In December 1999, the Company completed the sale of 41 of its radio stations in eight markets to Entercom for $700.4 million in cash recognizing a gain, net of tax, of $192.4 million. The Company completed the sale of four of the remaining five radio stations to Entercom in July 2000 for $126.6 million in cash and completed the sale of the remaining radio station in Wilkes-Barre to Entercom in November 2000 for a purchase price of $0.6 million in cash. In addition, in October 2000, the Company completed its sale to Emmis of the remaining radio stations serving the St. Louis market for a purchase price of $220.0 million. The Company recognized a gain, net of tax, of $108.3 million on the sale of these remaining radio stations for the year ended December 31, 2000.

Based on the Company's strategy to divest of its radio broadcasting segment, "Discontinued Operations" accounting has been adopted, in accordance with APB No. 30, for the periods presented in the accompanying financial statements and the notes thereto. As such, the results from operations of the radio broadcast segment, net of related income taxes, has been reclassified from income from

operations and reflected as income from discontinued operations in the accompanying consolidated statements of operations for all periods presented. Accounts receivable related to discontinued operations, which the Company will continue to own the rights to and collect, is included in accounts receivable, net of allowance for doubtful accounts, in the accompanying consolidated balance sheets for all periods presented. Accounts receivable, net of allowance for doubtful accounts includes accounts receivable related to discontinued operations balances of $220,667, net of allowance of $144,253 and $4.6 million, net of allowance of $1.5 million as of December 31, 2002 and 2001, respectively.

On April 18, 2002, we entered into an agreement to sell the television station of WTTV-TV in Bloomington, Indiana and its satellite station, WTTK-TV in Kokomo, Indiana to a third party. On July 24, 2002, WTTV-TV had net assets and liabilities held for sale of $108.8 million, and we completed such sale for $124.5 million and recognized a gain, net of taxes, of $7.5 million, which was used to pay down indebtedness. The operating results of WTTV-TV are not included in our consolidated results from continuing operations for the years ended December 31, 2002, 2001 and 2000. Since this agreement met all of the criteria for a qualifying plan of sale, the assets and liabilities disposed of by this sale have been classified as "held for sale" on the accompanying consolidated balance sheets presented. We applied the accounting for the disposal of long-lived assets in accordance with SFAS No. 144 as of January 1, 2002.

The details of classifications in the accompanying balance sheet as "held for sale" is as follows:

	December 31, 2002	December 31, 2001
Assets:		
Current portion of program contract costs	$	$ 7,440
Deferred barter costs		8
Prepaid expenses		68
Property and equipment, net		4,702
Program contract costs, less current portion		5,924
Intangibles		110,252
Assets held for sale	$	$ 128,394
Liabilities:		
Current portion of program contracts	$	$ 9,132
Deferred barter revenues		(11)
Program contracts payable, less current portion		11,702
Liabilities held for sale	$	$ 20,823

"Net income from discontinued operations" includes net broadcast revenues of $10.2 million, $21.0 million and $55.5 million for the years ended December 31, 2002, 2001 and 2000, respectively.

Discontinued operations have not been segregated in the consolidated statements of cash flows and, therefore, amounts for certain captions will not agree with the accompanying Consolidated Statements of Operations.

14. RESTRUCTURING CHARGES:

During February 2001, the Company offered a voluntary early retirement program to its eligible employees and implemented a restructuring program to reduce operating and overhead costs. As a result, the Company reduced its staff by 186 employees and incurred a restructuring charge of $2.3 million, which is included in the accompanying Consolidated Statements of Operations.

During September 2001, KDNL-TV in St. Louis, Missouri discontinued programming its local news broadcast. As a result, the Company incurred a restructuring charge of $1.1 million. During December 2001, WXLV-TV in Winston-Salem, North Carolina discontinued

programming its local news broadcast. As a result we incurred a restructuring charge of $0.3 million. The restructuring charges are related to severance and operating contract termination costs.

The following table provides a roll-forward of liabilities resulting from these restructuring charges (in thousands):

	Employee Severance and Termination Benefits	Lease Termination and Other Costs	Total
2001 Restructuring Charges	$ 3,448	$ 388	$ 3,836
2001 Payments	(2,367)	(76)	(2,443)
December 31, 2001 accrued balances	1,081	312	1,393
2002 Payments	(1,026)	(275)	(1,301)
December 31, 2002 accrued balances	$ 55	$ 37	$ 92

15. CONTRACT TERMINATION COSTS:

During 2001, the Company terminated certain agreements and entered into new agreements with unrelated third parties. The Company incurred $5.1 million of contract termination costs, and received $21.4 million for entering into a new contract. Both amounts will be recognized as a reduction in selling, general and administrative expense on a straight-line basis over the term of the contracts.

16. EMPLOYEE BENEFIT PLAN:

The Sinclair Broadcast Group, Inc. 401(k) Profit Sharing Plan and Trust (the SBG Plan) covers eligible employees of the Company. Contributions made to the SBG Plan include an employee elected salary reduction amount, company-matching contributions and a discretionary amount determined each year by the Board of Directors. The Company's 401(k) expense for the years ended December 31, 2002, 2001 and 2000 was $1.3 million, $1.2 million and $1.7 million, respectively. There were no discretionary contributions during these periods. The Company has registered 800,000 shares of its Class A Common Stock with the SEC to be issued as a matching contribution for the 1997 plan year and subsequent plan years.

17. STOCK-BASED COMPENSATION PLANS:

Stock Option Plans

Designated Participants Stock Option Plan. In connection with the Company's initial public offering in June 1995 (the "IPO"), the Board of Directors of the Company adopted an Incentive Stock Option Plan for Designated Participants (the Designated Participants Stock Option Plan) pursuant to which options for shares of Class A common stock were granted to certain key employees of the Company. The Designated Participants Stock Option Plan provides that the number of shares of Class A Common Stock reserved for issuance under the Designated Participant Stock Option Plan is 136,000. Options granted pursuant to the Designated Participants Stock Option Plan must be exercised within 10 years following the grant date. As of December 31, 2002, 34,500 shares were available for future grants.

Long-Term Incentive Plan. In June 1996, the Board of Directors of the Company adopted, upon approval of the stockholders by proxy, the 1996 Long-Term Incentive Plan (the LTIP). The purpose of the LTIP is to reward key individuals for making major contributions to the success of the Company and its subsidiaries and to attract and retain the services of qualified and capable employees. Options granted pursuant to the LTIP must be exercised within 10 years following the grant date. A total of 14,000,000 shares of Class A Common Stock are reserved for awards under the plan. As of December 31, 2002, 11,965,805 shares have been granted under the LTIP and 7,196,976 shares (including forfeited shares) were available for future grants.

Incentive Stock Option Plan. In June 1996, the Board of Directors adopted, upon approval of the stockholders by proxy, an amendment to the Company's Incentive Stock Option Plan. The purpose of the amendment was (i) to increase the number of shares of Class A Common Stock approved for issuance under the plan from 800,000 to 1,000,000, (ii) to lengthen the period after date of grant before options become exercisable

from two years to three years and (iii) to provide immediate termination and three-year ratable vesting of options in certain circumstances. Options granted pursuant to the ISOP must be exercised within 10 years following the grant date. As of December 31, 2002, 714,200 shares have been granted under the ISOP and 772,334 shares (including forfeited shares) were available for future grants.

A summary of changes in outstanding stock options is as follows:

	Options	Weighted-Average Exercise Price	Exercisable	Weighted-Average Exercise Price
Outstanding at end of 1999	7,182,770	19.84	3,639,020	15.41
2000 Activity:				
Granted	1,371,335	9.71		
Exercised	(5,667)	9.25		
Forfeited	(1,141,493)	21.35		
Outstanding at end of 2000	7,406,945	17.74	3,886,793	14.88
2001 Activity:				
Granted	676,400	8.93		
Exercised	(63,287)	9.20		
Forfeited	(792,613)	18.94		
Outstanding at end of 2001	7,227,445	16.86	4,666,669	15.65
2002 Activity:				
Granted	260,400	12.14		
Exercised	(283,812)	9.23		
Forfeited	(628,775)	20.61		
Outstanding at end of 2002	6,575,258	16.64	5,066,783	16.08

Additional information regarding stock options outstanding at December 31, 2002 is as follows:

Outstanding	Exercise Price	Weighted-Average Remaining Contractual Life (In Years)	Exercisable	Weighted-Average Exercise Price
398,675	$ 6.10 - 9.06	8.2	174,150	$ 8.70
1,127,963	$ 9.20 - 13.68	7.4	724,038	$ 9.73
3,257,870	$ 14.32 - 20.94	3.6	3,231,470	$ 15.35
1,790,750	$ 24.20 - 28.42	5.1	937,125	$ 24.91
6,575,258	$ 6.10 - 28.42	4.9	5,066,783	$ 16.08

18. EARNINGS PER SHARE:

The following table reconciles income (numerator) and shares (denominator) used in the Company's computations of earnings per share for the years ended December 31, 2002, 2001, and 2000 (in thousands, except per share data):

	2002	2001	2000
Numerator			
Net income (loss) from continuing operations	$ 3,850	$ (113,460)	$ (37,831)
Net income from discontinued operations, including gain on sale of broadcast assets related to discontinued operations	$ 7,891	$ (52)	$ 115,196
Net loss from extraordinary item	$ (9,831)	$ (14,210)	$
Cumulative adjustment for change in accounting principle	$ (566,404)	$	$
Net (loss) income	$ (564,494)	$ (127,722)	$ 77,365
Preferred stock dividends payable	(10,350)	(10,350)	(10,350)
Net (loss) income available to common shareholders	$ (574,844)	$ (138,072)	$ 67,015
Denominator			
Weighted-average number of common shares	85,337	84,352	91,405
Dilutive effect of outstanding stock options	243	31	27
Dilutive effect of equity put options		241	1,055
Weighted-average number of common equivalent shares outstanding	85,580	84,624	92,487
BASIC EARNINGS PER SHARE:			
Net loss per share from continuing operations	$ (0.08)	$ (1.47)	$ (0.53)
Net income per share from discontinued operations	$ 0.09	$	$ 1.26
Net loss per share from extraordinary item	$ (0.12)	$ (0.17)	$
Net loss per change from cumulative effect of change in accounting principle	$ (6.64)	$	$
Net (loss) income per share	$ (6.74)	$ (1.64)	$ 0.73
DILUTED EARNINGS PER SHARE:			
Net loss per share from continuing operations	$ (0.08)	$ (1.47)	$ (0.53)
Net income per share from discontinued operations	$ 0.09	$	1.26
Net loss per share from extraordinary item	$ (0.12)	$ (0.17)	$
Net loss per change from cumulative effect of change in accounting principle	$ (6.64)	$	$
Net (loss) income per share	$ (6.74)	$ (1.64)	$ 0.73

Basic earnings per share (EPS) is calculated using the weighted average number of shares outstanding during the period. Diluted earnings per share (Diluted EPS) includes the potentially dilutive effect, if any, which would occur if outstanding options to purchase common stock were exercised using the treasury stock method and if written equity put options were exercised using the reverse treasury stock method. Stock options to purchase 0.2 million incremental shares of common stock and stock options and written equity put options to purchase 0.3 million and 1.1 million incremental shares of common stock were outstanding during the years ended December 31, 2002, December 31, 2001 and December 31, 2000, respectively, but were not included in the computation of diluted EPS as the effect would be anti-dilutive. Stock options to purchase shares of common stock were outstanding during the years ended December 31, 2002, 2001 and 2000, but were not included in the computation of diluted EPS because the option's exercise price was greater than the average market price of the common shares.

18. QUARTERLY FINANCIAL INFORMATION (UNAUDITED):

	For the Quarter Ended,				
	03/31/02 (As reported)	03/31/02 (As restated)(1)(2)	06/30/02(2)	09/30/02(2)	12/31/02
Total revenues	$ 167,480	$ 160,379	$ 190,670	$ 178,567	$ 206,173
Operating income (loss)	28,808	28,854	49,078	42,998	63,700
Net income (loss) from continuing operations	(630)	(172)	(2,009)	(24,987)	31,018
Income (loss) from discontinued operations		(458)	585	7,764	
Income (loss) from extraordinary item	(728)	(728)		(4,218)	(4,885)
Income (loss) from change in accounting principle	(41,608)	(566,404)			
Net loss available to common shareholders	(45,554)	(570,350)	(4,011)	(24,029)	23,546
Basic loss per share from continuing operations	(0.04)	(0.03)	(0.05)	(0.32)	0.33
Basic income (loss) per share from discontinued operations		(0.01)	0.01	0.09	
Basic income (loss) per share from extraordinary item	(0.01)	(0.01)		(0.05)	(0.06)
Basic income (loss) per share from change in accounting principle	(0.49)	(6.67)			
Basic loss per share	(0.54)	(6.72)	(0.05)	(0.28)	0.28
Diluted loss per share from continuing operations	(0.04)	(0.03)	(0.05)	(0.32)	0.33
Diluted income (loss) per share from discontinued operations		(0.01)	0.01	0.09	
Diluted income (loss) per share from extraordinary item	(0.01)	(0.01)		(0.05)	(0.06)
Diluted income (loss) per share from change in accounting principle	(0.49)	(6.67)			
Diluted (loss) earnings per share	(0.54)	(6.72)	(0.05)	(0.28)	0.27

	For the Quarter Ended			
	03/31/01	06/30/01	09/30/01	12/31/01

	For the Quarter Ended			
Total revenues	158,106	186,505	162,019	178,021
Operating income (loss)	7,140	24,805	5,657	401
Net loss from continuing operations	(36,823)	(13,225)	(29,492)	(33,920)
Net income (loss) from discontinued operations	210	204	(367)	(99)
Net loss available to common shareholders	(39,201)	(20,307)	(32,447)	(46,117)
Basic loss per share from continuing operations	(0.47)	(0.19)	(0.38)	(0.43)
Diluted loss per share from continuing operations	(0.47)	(0.19)	(0.38)	(0.43)
Basic loss per share from discontinued operations				
Diluted loss per share from discontinued operations				
Basic loss per share	(0.46)	(0.24)	(0.39)	(0.55)
Diluted loss per share	(0.46)	(0.24)	(0.39)	(0.55)

(1) The results previously reported in the Company's Form 10-Q for the quarter ended March 31, 2002 have been restated to reflect the cumulative effect of adoption of SFAS No. 142 as discussed in Note 1. The results have also been restated to reflect the results of discontinued operations as described in Note 1.

(2) The results previously reported in the Company's Form 10-Q for the quarters ended March 31, 2002, June 30, 2002 and September 30, 2002 have been restated to reflect the adoption of EITF 02-16 as discussed in Note 1.

ACRODYNE COMMUNICATIONS, INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

	December 31,	
	2002	**2001**
	(unaudited)	**(unaudited)**
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 312,921	$ 17,687
Accounts receivable, net of allowance for doubtful accounts of $38,600 and $500,000 at December 31, 2002 and 2001, respectively	2,204,044	1,466,788
Inventories, net	3,271,066	1,281,512
Prepaid assets and deposits	78,998	44,955
Total current assets	5,867,029	2,810,942
PROPERTY, PLANT AND EQUIPMENT, net	3,407,611	3,771,969
LICENSE AGREEMENT, net of accumulated amortization of $825,000 and $525,000 at December 31, 2002 and 2001, respectively	675,000	975,000
Total assets	$ 9,949,640	$ 7,557,911

	December 31,	
LIABILITIES AND SHAREHOLDERS' DEFICIT		
CURRENT LIABILITIES:		
Line of credit related party	$ 5,133,759	$ 5,133,759
Subordinated debenture related party	2,000,000	2,000,000
Current portion of capital lease obligations	625,259	116,478
Accounts payable	2,353,444	1,946,907
Accrued expenses	2,176,782	1,185,828
Customer advances	3,014,996	2,879,995
Deferred revenue		14,103
Accrued license fees	825,000	525,000
Other current liabilities	1,066,878	920,016
Total current liabilities	17,196,118	14,722,086
CAPITAL LEASE OBLIGATIONS, net of current portion	3,701,038	3,757,987
LICENSE FEE PAYABLE long term	675,000	975,000
NON-COMPETE LIABILITY	731,231	845,912
Total liabilities	22,303,387	20,300,985
SHAREHOLDERS' DEFICIT:		
Preferred stock, par value $1.00; 1,000,000 shares authorized; 0 issued and outstanding at December 31, 2002 and 2001		
Common stock, par value $.01; 40,000,000 shares authorized; 7,409,608 issued and outstanding at December 31, 2002 and 2001, respectively	74,096	74,096
Additional paid-in capital	22,071,641	22,071,641
Accumulated deficit	(34,499,484)	(34,888,811)
Total shareholders' deficit	(12,353,747)	(12,743,074)
Total liabilities and shareholders' deficit	$ 9,949,640	$ 7,557,911

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

ACRODYNE COMMUNICATIONS, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF OPERATIONS

	For the Year Ended December 31,	
	2002	**2001**
	(unaudited)	**(unaudited)**

	For the Year Ended December 31,	
NET SALES		
Related party sales	$ 16,790,794	$ 8,795,294
Other sales	9,273,390	5,099,967
	26,064,184	13,895,261
COST OF SALES	19,258,636	9,801,459
Gross profit	6,805,548	4,093,802
OPERATING EXPENSES		
Engineering	2,094,649	2,052,644
Selling	1,360,105	1,069,504
Administration	2,069,517	2,557,414
Amortization of intangible assets	300,000	300,000
	5,824,271	5,979,562
Operating profit (loss)	981,277	(1,885,760)
OTHER (EXPENSES) INCOME		
Interest expense, net	(860,658)	(854,919)
Other income, net	268,709	171,475
Income/(Loss) before income taxes	389,328	(2,569,204)
INCOME TAXES		
Net Income/(Loss)	389,328	(2,569,204)
Dividends on 8% convertible redeemable preferred stock		(28,056)
Inducement to convert preferred to common shares		(208,591)
Net Income/(Loss) Applicable to common shareholders	$ 389,328	$ (2,805,851)
Net Income/(Loss) per common share Basic and diluted	$ 0.05	$ (0.39)
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING BASIC AND DILUTED	7,409,608	7,177,189

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

ACRODYNE COMMUNICATIONS, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' DEFICIT

FOR THE YEARS ENDED DECEMBER 31, 2002 (UNAUDITED) AND 2001 (UNAUDITED)

	Preferred Stock		Common Stock		Additional Paid-In Capital	Accumulated Deficit	Total Shareholders' Deficit
	Shares	Amount	Shares	Amount			
BALANCE AT DECEMBER 31, 2000	6,500	$ 6,500	6,981,161	$ 69,812	21,496,778	$ (32,082,960)	$ (10,509,870)
Warrants issued to settle lawsuit					336,000		336,000
Conversion of Preferred to Common stock	(6,500)	(6,500)	189,410	1,894	$ 4,606		
Stock dividend			28,339	283	27,773	(28,056)	
Inducement to convert Preferred to Common stock			210,698	2,107	206,484	(208,591)	
Net loss						(2,569,204)	(2,569,204)
BALANCE AT DECEMBER 31, 2001	0	0	7,409,608	74,096	22,071,641	(34,888,811)	(12,743,074)
Net Income						389,328	389,328
BALANCE AT DECEMBER 31, 2002	0	$ 0	7,409,608	$ 74,096	$ 22,071,641	$ (34,499,484)	$ (12,353,747)

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

ACRODYNE COMMUNICATIONS, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Year Ended December 31,	
	2002	2001
	(unaudited)	(unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income/(Loss)	$ 389,328	$ (2,569,204)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	690,579	708,560
Issuance of warrants for legal proceedings		336,000
Provision for bad debts	192,211	78,903
Changes in assets and liabilities:		
Accounts receivable	(929,467)	(601,466)
Inventories	(1,989,554)	1,005,375
Prepaid and other current assets	(34,044)	514,124
Accounts payable	406,537	209,677
Accrued expenses and other liabilities	1,474,967	559,750
Deferred revenue	(14,103)	(2,275,982)

	For the Year Ended December 31,	
Customer advances	135,001	(1,843,435)
Net cash provided/(used) in operating activities	321,455	(3,877,698)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(26,221)	(29,603)
Net cash (used in) investing activities	(26,221)	(29,603)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings under line of credit		3,838,029
Net cash provided by financing activities		3,838,029
Net increase/(decrease) in cash and cash equivalents	295,234	(69,272)
Cash and cash equivalents at beginning of year	17,687	86,959
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 312,921	$ 17,687
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid for interest	$	$
Dividends paid in Company Stock	$	$ 28,056
Funding of capital lease related party	$	$ 136,977

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

ACRODYNE COMMUNICATIONS, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2002 (UNAUDITED) AND 2001 (UNAUDITED)

1. BACKGROUND:

Organization

We are Acrodyne Communications, Inc., a Delaware corporation, which operates in one industry segment the design, manufacture and marketing of television broadcast transmitters, which are sold in the United States and internationally. Our wholly owned operating subsidiary,

Acrodyne Industries, Inc., manufactures and sells TV transmitters, LPTV transmitters and TV translators produced to customer specifications.

Operations and Business Risk

Due to the nature of the Company's business, it is subject to various risks including, but not limited to, technological and market acceptance of its product, capital availability, dependence on management and other risks. The Company has been in the process of developing products and applications using digital transmission technology. Related to this process, the Company entered into a license agreement with Sinclair Broadcast Group, Inc. ("Sinclair") in March 2000 (see Note 6). The Company shipped the first of its digital transmitters in March 2001.

Since the acquisition of Acrodyne Industries in 1994, the Company has incurred significant losses and operating cash flow deficits. These losses and cash flow deficits have been funded primarily with proceeds from the sale of equity securities, borrowings, and customer advances. Sinclair purchased and exercised warrants for $225,000 in 2000 and provide a $2,000,000 subordinated debenture and the Company's Credit Facility (see Note 7). As of December 31, 2002, Sinclair owned 34.6% of the Company's common stock and has warrants to purchase 8,644,225 additional shares (see Notes 8 and 10), which represented 60.4% of the Company on a fully diluted basis.

Sinclair had provided a guarantee of the Company's $2,500,000 credit facility. In November 2000, Sinclair purchased the credit facility from a former bank (see Note 7). In March 2000, Sinclair agreed to provide additional funds to the Company of up to $2,000,000 under terms of a subordinated debenture (see Note 7). From January 1, 2001 through December 31, 2001, Sinclair provided additional funds to the Company in the amount of $3,975,006. During 2002 there were no additional borrowings.

Principal and interest related to the debenture and the credit facilities were exchanged for common stock in January 2003 under terms of the recapitalization (see note 14).

Future Liquidity

At December 31, 2002, we had a working capital deficit and accumulated deficit of $11,329,089 and $34,499,484 respectively. Prior to 2002, we incurred operating cash flow deficits and experienced net losses. We have funded our cash requirements through 2002 with proceeds from a $4,000,000 credit facility obtained from Sinclair in April 2001 (see discussion below), a $2,500,000 credit facility, a $2,000,000 subordinated debenture issued to Sinclair in March 2000, deferral of capital lease obligations, and customer advances. We may require additional capital to fund our expansion into the digital television market and any additional operating losses, should they occur. There can be no assurance that we will be able to obtain the necessary capital to fund operating needs and finance any required investment needs or to generate sufficient revenue to achieve and sustain positive cash flow.

On December 20, 2002 our shareholders approved a recapitalization plan. This plan significantly restructured our balance sheet by forgiving debt, unpaid interest, and future obligations under the technology agreement with Sinclair, plus the receipt of additional cash, in exchange for 20,350,000 shares of our stock. This plan was completed in January 2003. The removal of debt, interest, and long term obligations from our liabilities with the addition of cash has improved our working capital ratios and decreased our accumulated deficit. At this time the company does not have a line of credit in place with either Sinclair or a bank. There are no guarantees that we would be able to obtain such a facility. Without an operating line of credit the company must rely on internally generated cash flow to fund future operations.

See Note 14 for an unaudited pro forma consolidated balance sheet as of December 31, 2002 that reflects the recapitalization as if it took place on that date.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The following summarizes the significant accounting policies employed by the Company in preparation of its consolidated financial statements:

Consolidation

The financial statements include the accounts of the Company and its wholly-owned subsidiary, Acrodyne Industries. All intercompany transactions and balances are eliminated in consolidation. Certain prior year amounts have been reclassified to conform to current year presentation.

Cash and Cash Equivalents

The Company considers all short-term investments with an original maturity of three months or less to be cash equivalents.

Accounts Receivable

The majority of the Company's accounts receivable are due from companies in the television industry. Credit is extended based upon evaluation of a customers' financial condition. In most cases, for the sale of transmitters and other major equipment, we obtain advance deposits for approximately 90% of the sale amount that are applied to the invoice amount at the time of delivery of the product. Accounts receivable are generally due within 30 days and are stated at amounts due. Accounts outstanding longer than 90 days are considered past due and are shown net of an allowance for doubtful accounts. The Company determines its allowance by considering a number of factors, including the length of time trade receivables are past due, the Company's ability to pay, the previous loss history and the general economy and industry as a whole. The Company writes-off accounts receivable when they become uncollectible and payments subsequently received on such receivables are credited to the allowance for doubtful accounts.

Approximately 64% of sales in 2002 were to Sinclair, which has 34.6% ownership of the Company at December 31, 2002 (82.4% after the January 2003 recapitalization). At December 31, 2002 approximately $550,000 of our outstanding receivables were due from Sinclair or television stations it owned. No allowance for doubtful accounts has been recorded against these receivables.

Changes to the Allowance for Doubtful Accounts for 2002 and 2001 are as follows:

	2002	2001
	(unaudited)	(unaudited)
Balance at beginning of year	$ 500,000	$ 375,007
Additional provisions during the year	192,211	138,975
Accounts written-off	(653,611)	(13,982)
Balance at end of year	$ 38,600	$ 500,000

Inventory

Inventory includes material, direct labor, and overhead and is valued at the lower of cost or market on a first-in first out basis. We establish an allowance for obsolescence for inventory items that are in excess of requirements to support sales, are not used in current transmitter design, or have shown little activity during the past year.

Property and Equipment

Property and equipment are carried at cost. The cost of additions and improvements are capitalized, while maintenance and repairs are charged to operations when incurred. The cost and related accumulated depreciation of assets sold, retired or otherwise disposed of are removed from the respective accounts and any resulting gain or loss is recorded in the statement of operations. Depreciation is recorded using the straight-line method over the estimated useful lives of the assets, primarily three to seven years. Leasehold improvements are amortized over the shorter of their useful lives or the remaining lease terms. Capital leases are depreciated over their useful lives or lease term, as applicable.

Customer Advances

Deposits received from customers on orders for purchase of products are recorded as a liability.

Revenue Recognition

The Company recognizes revenue from the sale of transmitters when title and risks of ownership are transferred to the customer, which generally occurs upon shipment or customer pick-up of the equipment. A customer may be invoiced for and receive title to transmitters prior to taking physical possession when the customer has made a fixed, written commitment for the purchase, the transmitters have been completed, tested and are available for pick-up or delivery, and the customer has requested that the Company hold the transmitters until the customer

determines the most economical means of taking physical possession. Upon such a request, the Company recognizes revenue if it has no further obligation except to segregate the transmitters, invoice the customer under normal billing and credit terms, and hold the transmitter for a short period of time as is customary in the industry. There were no such sales for the years ended December 31, 2002 or December 31, 2001.

Transmitters are built to customer specification and no right of return or exchange privileges are granted. Accordingly, no provision for sales allowances or returns is recorded. The Company records

revenue for services related to installation of transmitters upon completion of the installation process. Amounts which cannot be recognized in accordance with the above policy are recorded as deferred revenue in the accompanying consolidated balance sheets. The adoption of SAB No. 101, in the fourth quarter of 2000, resulted in an increase in reported revenues for the year ending December 31, 2001 of approximately $2,276,000.

Concentration of Credit Risk

The Company's customers are domestic and international television stations, broadcasters, government entities, not-for-profit organizations and educational institutions. International sales were $680,910 and $591,876 for the years ended December 31, 2002 and 2001, respectively. One customer, Sinclair (see Note 10), represented approximately 64% of sales in 2002 and 63% in 2001 and 25% of receivables in 2002 and 50% in 2001. No other customers represented more than 10% of sales in 2002 or 2001.

Use of Estimates

The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities; disclosure of contingent assets and liabilities at the date of the financial statements; and the reported amount of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Research and Development

Research and development expenditures related to the design and development of new products are expensed as incurred and as such are included in engineering department expenses in the accompanying consolidated statements of operations. Research and development costs charged to expense during the years ended December 31, 2002 and 2001 were approximately $556,000 and $524,000, respectively.

Advertising expense

Advertising expense was $313,809 in 2002 and $90,454 in 2001.

Income Taxes

The Company records deferred income taxes for the estimated future tax effects of temporary differences between financial statement carrying amounts and the tax basis of existing assets and liabilities. Under this method, deferred tax assets and liabilities are recognized for the tax effects of temporary differences between the financial reporting and tax basis of assets and liabilities using enacted rates. A valuation allowance is recorded against deferred tax assets when it is concluded that it is more likely than not that the related tax benefit will not be realized.

Fair Value of Financial Instruments

The Company's consolidated financial instruments include cash and cash equivalents, short-term investments, accounts receivable, capital leases and debt. The fair value of cash and cash equivalents, short-term investments and accounts receivable approximate their recorded book values as of December 31, 2002 and 2001.

Impairment of Long-Lived Assets

In accordance with SFAS 144, Accounting for the Impairment or Disposal of Long-Lived Assets, we periodically review the carrying value of our long-lived assets held and used and assets to be disposed of for possible impairment when events and circumstances warrant such a review.

New Accounting Pronouncements

In August 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) 143, "Accounting for Asset Retirement Obligations". This Statement addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. SFAS 143 requires an enterprise to record the fair value of an asset retirement obligation as a liability in the period in which it incurs a legal obligation associated with the retirement of a tangible long-lived asset. SFAS 143 also requires the enterprise to record the contra to the initial obligation as an increase to the carrying amount of the related long-lived asset (i.e., the associated asset retirement costs) and to depreciate that cost over the remaining useful life of the asset. The liability is adjusted at the end of each period to reflect the passage of time (i.e., accretion expense) and changes in the estimated future cash flows underlying the initial fair value measurement. Enterprises are required to adopt SFAS 143 for fiscal years beginning after June 15, 2002. The provisions of the Statement are not expected to have a material impact on the financial condition or results of operations of the Company.

In October 2001, the FASB issued SFAS 144 "Accounting for the Impairment or Disposal of Long-Lived Assets". SFAS 144 partially supersedes SFAS 121 "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," and certain provisions of APB Opinion No. 30 "Reporting the Results of Operations-Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions." SFAS 144 establishes standards for long-lived assets to be disposed of, and redefines the valuation and presentation of discontinued operations. SFAS 144 is effective for fiscal years beginning after December 15, 2001, and interim periods within those fiscal years. The adoption of SFAS 144 did not have a material effect on the Company's financial position, results of operations, or cash flows.

In April 2002, the FASB issued SFAS 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections". SFAS 145 eliminates extraordinary accounting treatment for reporting gain or loss on debt extinguishment, and amends other existing authoritative pronouncements to make various technical corrections, clarify meanings, or describe their applicability under changed conditions. The provisions of SFAS 145 related to the rescission of FASB Statement No. 4 are applicable in fiscal years beginning after May 15, 2002, the provisions related to FASB Statement No. 13 are effective for transactions occurring after May 15, 2002, and all other

provisions are effective for financial statements issued on or after May 15, 2002; however, early application is encouraged. Debt extinguishments reported as extraordinary items prior to scheduled or early adoption of SFAS 145 would be reclassified in most cases following adoption. Management does not expect the adoption of SFAS 145 to have a material effect on the Company's financial position, results of operations, or cash flows.

In June 2002, the FASB issued SFAS 146, "Accounting for Costs Associated with Exit or Disposal Activities". SFAS 146 requires recording costs associated with exit or disposal activities at their fair values when a liability has been incurred. Under previous guidance, certain exit costs were accrued upon management's commitment to an exit plan, which is generally before an actual liability has been incurred. The requirements of SFAS 146 are effective prospectively for exit or disposal activities initiated after December 31, 2002; however, early application is encouraged. Management does not expect the adoption of SFAS 146 to have a material effect on the Company's financial position, results of operations, or cash flows.

In November 2002, the FASB issued FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" (FIN 45). FIN 45 requires that upon issuance of a guarantee, a guarantor must recognize a liability for the fair value of an obligation assumed under a guarantee. FIN 45 also requires additional disclosures by a guarantor in its interim and annual financial statements about the obligations associated with guarantees issued. The recognition provisions of FIN 45 are effective for any guarantees issued or modified after December 31, 2002. The disclosure requirements are effective for financial statements of interim or annual periods ending after December 15, 2002. The adoption of this statement is not expected to have a significant impact on the financial condition or results of operations of the Company.

In December 2002, the FASB issued SFAS 148, "Accounting for Stock-Based Compensation Transition and Disclosure". SFAS 148 amends SFAS 123 "Accounting for Stock-Based Compensation," to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS 148 amends the disclosure requirements of SFAS 123

to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. SFAS 148 is effective for fiscal years beginning after December 15, 2002. The expanded annual disclosure requirements and the transition provisions are effective for fiscal years ending after December 15, 2002. The interim disclosure provisions are effective for financial reports containing financial statements for interim periods beginning after December 15, 2002. Management does not expect the adoption of SFAS 148 to have a material effect on the Company's financial position, results of operations, or cash flows.

Earnings per Share

Basic earnings (loss) per share is computed by dividing the net income or loss applicable to common shareholders by the weighted average number of shares outstanding during the period. Diluted earnings (loss) per share is computed using the weighted average number of shares determined for the basic computations plus the number of shares of common stock that would be issued assuming

all contingently issuable shares having a dilutive effect on earnings per share were outstanding for the period.

In 2002 the exercise price of outstanding options and warrants to purchase shares of the Company stock are in excess of the market price and are excluded from the computation of diluted income per share. Shares payable but not yet issued and outstanding are included.

Due to the Company's net loss in 2001 the incremental shares issuable from warrants and options were anti-dilutive and, accordingly, not considered in the calculation.

3. INVENTORIES:

Inventories consist of the following:

	December 31,	
	2002	**2001**
	(unaudited)	**(unaudited)**
Raw materials	$ 1,841,509	$ 2,192,096
Work-in-process	1,525,484	449,742
Finished goods	5,521	116,110
Total Inventory	3,372,514	2,757,948
Allowance for obsolete inventory	(101,448)	(1,476,436)
Inventory, net	$ 3,271,066	$ 1,281,512

Inventory includes material, direct labor, and overhead and is valued at the lower of cost or market on a first-in first out basis. We establish an allowance for obsolescence for inventory items that are in excess of requirements to support sales, are not used in current transmitter design, or have shown little activity during the past year.

Changes in the allowance for obsolescence during 2002 and 2001 are as follows:

	2002	**2001**
	(unaudited)	**(unaudited)**
Balance at beginning of period	$ 1,476,436	$ 1,516,693
Charges to expense	37,008	

	2002	2001
Disposal of material	(1,411,996)	(40,257)
Balance at end of period	$ 101,448	$ 1,476,436

4. PROPERTY AND EQUIPMENT:

Property and equipment consist of the following:

	December 31,	
	2002	2001
	(unaudited)	(unaudited)
Test equipment	$ 697,395	$ 690,273
Machinery and equipment	53,924	52,755
Office furniture and equipment	449,139	436,866
Building lease /leasehold improvements	3,784,231	3,781,167
Purchased computer software	123,239	120,646
	5,107,928	5,081,707
Accumulated depreciation and amortization	(1,700,317)	(1,309,738)
	$ 3,407,611	$ 3,771,969

Depreciation and amortization expense for property and equipment amounted to $390,579 and $408,560 for the years ended December 31, 2002 and 2001, respectively.

The Company moved into a manufacturing facility in November 2000. This facility is subleased from Sinclair and the lease is capitalized at $3,776,667. Amortization expense was $251,778 in 2002 and $258,201 in 2001. The net book value of the capital lease at December 31, 2002 is $3,224,725. The lease term is fifteen years with two renewable five-year periods (see note 10).

5. NON-COMPETE AGREEMENT:

In connection with the acquisition of Acrodyne Industries, the Company entered into a non-compete agreement with the selling shareholder. In consideration for this agreement not to compete, the Company is obligated to make annual payments to the selling shareholder of $65,000 annually and pay for certain benefits for the remainder of his life. The Company recorded the actuarial present value of the estimated payments of $750,000 related to this agreement as an asset and established a corresponding liability at the date of acquisition. The company is currently negotiating to terminate this agreement.

6. LICENSE AGREEMENT:

During March 2000, the Company entered into a 10-year license agreement (the "License Agreement") with Sinclair for the exclusive right to manufacture and sell certain Sinclair designed transmitter lines. Under terms of the License Agreement, the Company would pay Sinclair an annual royalty of $300,000 for five years. For years six through ten, the Company would pay Sinclair an annual royalty equal to 1.0% of revenues realized by the Company attributable to the License Agreement. At end of the tenth year, the Company has the option to purchase the Sinclair technology. The purchase

price would be twice the cumulative royalty amount paid to Sinclair for years six through ten. Minimum lease payments due under capital leases are as follows:

	(unaudited)
2003	$ 825,000
2004	300,000
2005	300,000
2006	75,000
Total	1,500,000
Less current portion	825,000
Non-current portion of license agreement	675,000

As part of the recapitalization plan approved by our shareholders and completed in January 2003, Sinclair terminated this agreement, forgave amounts due under the agreement, and transferred ownership of the technology to us in exchange for shares of our stock. (See note 14)

7. DEBT:

The line of credit, subordinated debenture and capital lease obligations consist of the following:

	December 31,	
	2002	2001
	(unaudited)	(unaudited)
Line of credit with Sinclair (Note 10)	$ 5,133,759	$ 5,133,759
Subordinated debenture with Sinclair	2,000,000	2,000,000
Capital lease obligations (Note 11)	4,326,297	3,874,465
	11,460,056	11,008,224
Current portion	(7,759,018)	(7,250,238)
	$ 3,701,038	$ 3,757,986

The line of credit and the subordinated debenture are due on demand.

We established a $2,500,000 credit facility with a bank for working capital purposes. The bank required that Sinclair guarantee our obligations. Interest is payable on a formula basis. We have compensated Sinclair due to $200,000 payable in the form of our Common Stock for this guarantee. In November 2000 Sinclair purchased the credit facility and assumed all rights of the bank. Sinclair filed the UCC liens against the Company's personal property, which eliminated the Sinclair guaranty. The amount available under this line was capped at $1,158,753 and on April 27, 2001, we entered into an additional $4,000,000 line of credit facility with Sinclair. The maximum amount borrowed under the lines of credit was approximately $5,133,759 in 2002 and $5,133,759 in 2001. The lines of credit in 2002 had a weighted-average interest rate of 4.0% and total interest expense of $203,239. The amount available under the Credit Facility at December 31, 2002 was $24,994. Amounts owed under this credit facility, both principal and interest, were exchanged for common shares of our stock in January 2003, under terms of the recapitalization plan.

During March 2000, we entered into a subordinated debenture agreement with Sinclair. Under the terms of the Debenture, we may borrow up to $2,000,000 at an interest rate of 10.5%. Further, Sinclair has the right, at any time, to convert all, but not less than all, of the principal owed to Sinclair into our Common Stock at $3.45 per share. Sinclair may immediately convert the current principal into 579,710 shares of our Common Stock. During 2002 and 2001, the Company recorded $210,000 of interest due under the Debenture Agreement. Amounts owed under this debenture, both principal and interest, were exchanged for common shares of our stock in January 2003, under terms of the recapitalization

plan.

The Company moved into a manufacturing facility in November 2000. This facility is subleased from Sinclair and the lease is capitalized at $3,776,667. Amortization expense was $251,778 in 2002 and $258,201 in 2001. The net book value of the capital lease at December 31, 2002 is $3,224,725. The company did not pay its obligations under terms of the lease. The past due amounts owed plus accrued interest are recorded as a current liability on the balance sheet. Amounts owed through September 30, 2002 were exchanged for common shares of our stock in January 2003, under terms of the recapitalization plan.

The weighted average interest rate on long-term debt at December 31, 2002 was 5.8%.

See note 14 for an unaudited pro forma consolidated balance sheet as of December 31, 2002 that reflects the recapitalization as if it took place on that date.

8. SHAREHOLDERS' EQUITY:

Preferred Stock

Preferred stock consists of 1,000,000 shares, par value $1 per share, which may be issued in series from time to time with such designation, rights, preferences and limitations as the Board of Directors of the Company may determine by resolution. Any and all such rights that may be granted to preferred stockholders may be in preference to common stockholders. During 1996, the Company sold 10,500 shares of 8% Convertible Redeemable Preferred Stock (the "8% Preferred Stock") in a private placement. The 8% Preferred Stock had a liquidation preference of $100 per share plus all outstanding and unpaid dividends and was redeemable at the discretion of the Company for the amount of the liquidation value after one year from issuance date provided certain stipulations were met. The 8% Preferred Stock was convertible at the option of the holder into the number of common shares obtained by dividing the liquidation value by the $3.71 per share conversion price, subject to adjustment. Holders of the 8% Preferred Stock voted on a fully converted basis with the holders of common stock and, in the event of certain dividend arrearages, had the right to elect a director to the Company's Board. During 1997, 4,000 shares of the 8% Preferred Stock were converted into common stock at a conversion price of $4.00 per share; 6,500 shares remained outstanding at the end of 2001. On July 17, 2001 the 6,500 shares plus dividends in arrears were converted to 428,447 shares of common stock.

During 1998, the Company sold 326,530 shares of Series A 8% Convertible Redeemable Preferred Stock (the "Series A Preferred Stock") in a private placement for net proceeds of $972,668. In connection with this private placement, the Company issued warrants to purchase up to 525,000 shares

of common stock at an exercise price of $3.00 per share. The warrants are exercisable through September 4, 2005. On January 27, 1999, the Series A Preferred Stock was redeemed by the Company for $998,531.

Common Stock

On November 7, 1997, the Company sold 800,000 shares of common stock and warrants to purchase up to an additional 500,000 shares of common stock for aggregate net proceeds of $1,951,800. The warrants issued in connection with this transaction carried an exercise price of $3.00 per common share and expired on November 7, 2002.

On January 27, 1999, the Company increased the number of authorized shares of common stock from 10,000,000 to 30,000,000. Concurrent with this change, the Company sold 1,431,333 shares of common stock and warrants to purchase up to an additional 8,719,225 shares of common stock to Sinclair in a private placement for aggregate proceeds of $4,300,000. Transaction costs of $494,626 were incurred in connection with this transaction. The Company utilized $998,531 of the proceeds from this transaction to redeem the Series A Preferred Stock as discussed above.

On December 20, 1999, the Company committed to issue 112,000 shares of common stock to Sinclair with a fair market value of $270,000 in accordance with terms of the Guaranty and Lease Compensation Agreement, dated December 20, 1999 (see Note 10). These shares are included in outstanding shares.

In 2000, on the anniversary dates of the above agreements, the Company was obligated to issue additional shares to compensate Sinclair for its guarantees. In the fourth quarter of 2000, 589,506 shares were obligated to be issued with a fair value of $305,500. This amount was recorded

as an addition to Additional Paid-in Capital.

On December 20, 2002 the number of authorized shares of common stock was increased to 40,000,000.

In January 2003, as part of the recapitalization plan approved by shareholders, Sinclair was issued 20,350,000 shares of Acrodyne common stock (see note 14).

Warrants and Options

In connection with the initial Sinclair investment discussed above, the Company executed various agreements dated January 27, 1999, giving Sinclair the right to purchase up to 8,719,225 shares of the Company's common stock. Of these warrants, Sinclair may purchase 2,000,000 shares at an exercise price of $3.00 per share based on a vesting schedule that ended January 2001. In addition, 719,225 anti-dilution warrants were issued to Sinclair to purchase the Company's stock at $3.00 per share (subject to adjustment based on a formula defined in the related warrant agreement), and 6,000,000 warrants which are exercisable only upon the Company achieving increased product sales or sales of products with new technology. These warrants may be exercised at prices ranging from $3.00 to $6.00 per share. The expiration date of all warrants mentioned above is January 26, 2006. At December 31, 2002, Sinclair had 8,644,225 warrants to purchase the Company's common stock. Under terms of the

recapitalization plan approved December 20, 2002 and completed January 2003, the warrants were terminated.

The following warrants and options (excluding employee and director stock options) were outstanding at December 31, 2002 and 2001:

2002	2001	Exercise Price	Expiration Date
(unaudited)	(unaudited)		
	500,000	3.00	November 7, 2002
525,000	525,000	3.00	September 4, 2005
1,925,000(a)	1,925,000	3.00	January 26, 2006
719,225(a)	719,225	3.00	January 26, 2006
6,000,000(a)	6,000,000	3.00-6.00	January 26, 2006
1,600,000	1,600,000	1.00	July 26, 2006
10,769,225	11,269,225		

(a) Exchanged for common stock in recapitalization plan completed in January 2003.

Employee Stock Options

In December 1993, the Company adopted the 1993 Stock Option Plan (the "1993 Plan"). A total of 250,000 shares of common stock options were issuable under the 1993 Plan. The options may be incentive stock options or non-qualified stock options. The maximum term of each option under the 1993 Plan is 10 years.

In April 1997, the Company adopted the 1997 Stock Option Plan (the "1997 Plan") under which 650,000 options have been authorized. In June 1998, the Board granted 450,000 options under the 1997 Plan to employees. The options had an exercise price of $4.50 per share. On October 16, 1998, the Board of Directors repriced the exercise price of these options to $3.00 per share.

In January 1999, the Board granted 175,000 options under the 1997 Plan to an employee. The options had an exercise price of $3.88 per share. The fair market value of the Company's stock on the date of grant was $4.06. No compensation related to the option grant was recorded in 1999.

In March 1999, the Company adopted the 1999 Long-Term Incentive Plan (the "1999 Plan") under which awards may be granted in the form of stock, restricted stock, stock options, stock appreciation rights or cash. Under the 1999 Plan, the Company may make stock-based awards of up to an aggregate of 2,000,000 shares of common stock. In August 1999, the Board granted 370,000 options to employees and directors under the 1999 Plan. The majority of these options vested immediately. The options had an exercise price of $2.34 per share. The fair market value of the Company's stock on the date of grant was $2.31. No compensation related to these option grants was recorded in 1999.

On June 9, 2000, the Company issued 439,700 options to employees and key individuals under the 1999 Plan. The options had an exercise price of $2.25 to $3.00 per share and expiration dates ranging from May 1, 2005 to July 1, 2007. The value of the Company's common stock on the date of grant was $2.25 per share.

The Company applies Accounting Principles Board (APB) Opinion 25, "Accounting for Stock Issued to Employees" and related interpretations in accounting for its option plans. Had compensation cost for the Company stock-based plans been determined based on the fair value at the grant date for awards consistent with the method of SFAS No. 123 "Accounting for Stock-Based Compensation", the Company's operating results and per share amounts would have been the pro forma amounts indicated below:

	December 31,	
	2002	2001
	(unaudited)	(unaudited)
Net income (loss) applicable to common shareholders:		
As reported	$ 389,328	$ (2,805,851)
Pro forma	389,328	(2,812,126)
Net income (loss) per common share (basic and diluted):		
As reported	$ 0.05	$ (0.39)
Pro forma	0.05	(0.39)

The fair value of each option granted in 2001 was estimated on the date of grant using the Black-Scholes option pricing model using the following parameters: 89% volatility, 6.7% risk-free rate of return, 0% dividend yield and five to seven year option life. In 2002 no options were issued.

A summary of the awards under the Company's stock option plans during the years ended December 31, 2002 and 2001 is presented below:

	December 31, 2002		December 31, 2001	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
	(unaudited)		(unaudited)	
Outstanding at the beginning of year	1,014,300	$ 2.68	1,153,800(*)	$ 2.61
Granted				
Exercised				
Rescinded/forfeited	(55,000)	(2.34)	(139,500)	(2.12)
Outstanding at year end	959,300	$ 2.70	1,014,300	$ 2.68

	December 31, 2002		December 31, 2001	
Options exercisable at year end	654,266	$ 2.65	542,500	$ 2.59
Weighted average fair value of options granted during the year		N/A		N/A

(*) Due to a clerical error, the number of options outstanding at the beginning of 2001 was increased by 10,000 shares from the amount disclosed in the December 31, 2001 financial statements.

Options to purchase 654,266 of common stock were outstanding during 2002. They were not included in the computation of the income per share because the average exercise price was higher than the average market price of the stock and would be considered anti-dilutive.

9. INCOME TAXES:

The provision for income taxes differs from the amount computed using the federal income tax rate as follows:

	December 31,	
	2002	2001
	(unaudited)	(unaudited)
Income tax benefit at statutory federal rates	$ 132,372	$ (943,581)
State tax benefit, net of federal tax benefit	23,360	(151,305)
Other permanent differences	11,487	22,400
Increase (decrease) in valuation allowance	(167,219)	1,072,489
		$

The components of the net deferred income tax asset (liability) are as follows:

	December 31,	
	2002	2001
	(unaudited)	(unaudited)
Deferred tax assets:		
Tax loss carryforwards (tax basis)	$ 10,597,967	$ 10,197,616
Allowance for doubtful accounts	15,440	200,000
Non-compete agreement	338,765	411,753
Inventory	327,698	795,962
Warranty reserve	123,242	
Other deferred tax assets	54,794	19,794
Net deferred tax assets	11,457,906	11,625,125
Valuation allowance	$ (11,457,906)	(11,625,125)

	December 31,	
	$	$

A full valuation allowance has been established against the Company's net deferred tax assets as management has concluded that it is more likely than not the related tax benefits may not be realized.

The Company's tax loss carryforwards, which begin to expire in 2011, totaled approximately $26,495,000 and $24, 300,000 at December 31, 2002 and 2001, respectively.

10. RELATED PARTY:

As discussed in Note 8, on January 27, 1999, Sinclair invested $4,300,000 in the Company in return for 1,431,333 shares of the Company's common stock and warrants to purchase up to an aggregate of 8,719,225 shares over a term of up to seven years at prices ranging from $3.00 to $6.00 per share. Sinclair also acquired an additional 800,000 shares of common stock previously held by outside investors. On December 20, 1999, the Company committed to issue 112,000 shares to Sinclair with respect to the terms of a Guaranty and Lease Compensation Agreement (see discussion below). As of December 31, 2000, the Company is obligated to issue 589,506 shares to Sinclair with respect to the terms of the Guaranty and Lease Compensation Agreement. As of December 31, 2002 and 2001,

Sinclair held an aggregate of 2,418,333 shares of the Company's common stock, representing approximately 32.64% of issued common stock assuming no warrants are exercised.

We established a $2,500,000 credit facility with a bank for working capital purposes. The bank required that Sinclair guarantee our obligations. Interest is payable on a formula basis. We have compensated Sinclair with $200,000 payable in the form of our Common Stock for this guarantee. In November 2000 Sinclair purchased the credit facility and assumed all rights of the bank. Sinclair filed the UCC liens against the Company's personal property, which eliminated the Sinclair guaranty. The amount available under this line was capped at $1,158,753 and on April 27, 2001, we entered into an additional $4,000,000 line of credit facility with Sinclair. The maximum amount borrowed under the lines of credit was approximately $5,133,759 in 2002 and $5,133,759 in 2001. The lines of credit in 2002 had a weighted-average interest rate of 4.0% and total interest expense of $203,240. The amount available under the Credit Facility at December 31, 2002 was $24,994. Amounts owed under this credit facility, both principal and interest, were exchanged for common shares of our stock in January 2003.

During November 1999, we entered into a sub-lease agreement with Sinclair for our manufacturing facility. Under the terms of this agreement, we compensated Sinclair on the lease execution date, $70,000 payable in the form of our common stock and also on each lease anniversary date $70,000 payable in the form of our common stock. Under terms of the recapitalization plan, this agreement was amended to make the $70,000 payments in 2002 through 2005 payable in cash. Subsequent payments can be made in cash or stock at Acrodyne's discretion. There were no payments made in 2002 as required in the sub-lease agreement. Past due amounts through September 2002 were exchanged for common stock in January 2003 (see note 13).

During March 2000, we entered into a license agreement with Sinclair for the exclusive right to manufacture and sell certain Sinclair designed analog and digital transmitters lines. Under the terms of this agreement, we will pay to Sinclair an annual royalty of $300,000 for 5 years. Following the fifth year of the License agreement, we shall pay to Sinclair an annual royalty equal to 1.0% of revenues realized by us attributable to the License Agreement. There were no payments made to Sinclair. The past due amounts were shown as current liabilities on the balance sheet. Under terms of the recapitalization plan, unpaid amounts were forgiven and the intellectual property related to the agreement was transferred to Acrodyne in exchange for shares of our common stock (see note 13).

During March 2000, we entered into a subordinated debenture agreement with Sinclair. Under the terms of the Debenture, we may borrow up to $2,000,000 at an interest rate of 10.5%. Further, Sinclair has the right, at any time, to convert all, but not less than all, of the principal owed to Sinclair into our Common Stock at $3.45 per share. Sinclair may immediately convert the current principal into 579,710 shares of our Common Stock. Amounts owed under this debenture, both principal and interest, were exchanged for common shares of our stock in January 2003, under terms of the recapitalization plan.

In the first quarter of 2001 it was determined by Sinclair that in order for Sinclair to meet its SEC public financial filing requirements, Acrodyne would have to accelerate their audit schedule. Sinclair agreed to pay $150,000 of Acrodyne's audit fees for the year ended 2000, in

order to meet its expedited schedule.

Sales made to Sinclair during 2002 and 2001 totaled $16,790,794 and $8,795,294, respectively. The Company sells these products to Sinclair at prices which approximate fair market value. The following

amounts are included in the consolidated balance sheets at year end in connection with trade transactions with Sinclair:

	December 31,	
	2002	2001
	(unaudited)	(unaudited)
Receivables	$ 550,239	$ 1,081,028
Customer advances	1,967,808	1,864,123

In addition, included in the current portion of capital lease obligation and other current liabilities are $1,150,259 in 2002 and $641,479 in 2001 of amounts payable to Sinclair that have been deferred under the capital lease and license fee obligations.

11. COMMITMENTS AND CONTINGENCIES:

During September 2000, the Company entered into a sublease agreement with Sinclair (see Note 9) for the lease of its headquarters and manufacturing facility, which was occupied during November 2000. Minimum lease payments due under capital leases are as follows:

	(unaudited)
2003	$ 625,259
2004	448,103
2005	505,342
2006	518,779
2007	532,621
2008 and thereafter	4,591,451
	7,221,555
Less amount representing interest	2,895,258
Present value of obligation	4,326,297
Less current portion	625,259
Noncurrent obligations under capital leases	$ 3,701,038

Future minimum lease payments under noncancellable operating leases are as follows:

	(unaudited)
2003	$ 23,071
2004	23,071
2005	23,071
2006	23,071
	$ 92,284

12. LEGAL PROCEEDINGS

In September 2000, we were named as defendant, along with two of our directors, in four class action lawsuits filed in the United States District Court for the District of Maryland (Northern Division). These four lawsuits were consolidated into a single lawsuit (the "Lawsuit"). The Lawsuit asserted that we issued false and misleading financial statements. On April 9, 2001, we reached a settlement (the "Settlement") with plaintiffs' counsel. The Settlement required us to issue plaintiffs five (5) year warrants to purchase One Million Six Hundred Thousand (1,600,000) shares of our voting common stock at an exercise price of One Dollar ($1.00) per share and to pay the class plaintiffs Seven Hundred Fifty Thousand Dollars ($750,000). The cash portion of the Settlement was funded by our officers' and directors indemnity insurance policy. As a result of the Settlement, during the three months ended March 31, 2001, the Company recorded a charge to operations of $336,000 which represented the fair value of the warrants issued.

The SEC conducted an investigation of the facts and circumstances that required the company's financial statements and filings to be restated for the year ending 1999 and the first two quarters of 2000. Acrodyne cooperated fully with the investigation and supplied documents to assist in the SEC investigation. Several former employees, a current employee of the company, as well as a Sinclair employee were subpoenaed and testified before attorneys for the SEC.

On March 6, 2003 the SEC issued a cease and desist order against Acrodyne. The Commission found that "Acrodyne materially misstated figures reported for its inventory, cost of sales, revenue, gross profit, and net loss in its financial statements for the year ended December 31, 1998; the first three quarters of 1999; the year ended December 31, 1999; and the first quarter of 2000. Acrodyne included its misleading financial results in press releases and its filings with the Commission relating to these periods". Further the Commission found, "Acrodyne was unable to properly value its products because of the incomplete and outdated cost data it maintained. In addition, starting in the second quarter of 1999, Acrodyne made unsupported adjustments to its sales and inventory accounts to bring Acrodyne's financial statements in line with the gross margin percentage it had budgeted for the period. Acrodyne knew or acted recklessly with respect to its faulty cost accounting." Further, as part of their investigation, the SEC fined Acrodyne's former CEO $50,000, a former CFO $10,000, and a former Controller and CFO $10,000. In exchange for cancellation of a termination of service agreement, Acrodyne had previously agreed to pay legal fees and penalties for the former CEO. The fine of $50,000 was paid by Acrodyne in 2003, per that agreement.

13. SELECTED QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

	2002			
	Revenues	Gross Profit	Net Income	Basic and Diluted Net Per Share Income
1/st/ Quarter	$ 5,821,637	$ 1,344,324	$ 81,693	$ 0.01
2/nd/ Quarter	5,865,893	1,842,667	114,883	0.02
3/rd/ Quarter	6,263,473	1,677,669	61,537	0.01
4/th/ Quarter	8,113,181	1,940,888	131,215	0.01
	$ 26,064,184	$ 6,805,548	$ 389,328	$ 0.05

	2001			
	Revenues	Gross Profit	Net Income (Loss)	Basic and Diluted Net Income (Loss) Per Share
1/st/ Quarter	$ 2,226,178	$ 242,787	$ (1,431,943)	$ (0.21)
2/nd/ Quarter	672,334	(79,165)	(1,879,220)	(0.27)
3/rd/ Quarter	4,740,062	1,683,528	546,887	0.07
4/th/ Quarter	6,256,687	2,246,652	195,072	0.03

	2001			
$	13,895,261	$ 4,093,802	$ (2,569,204)	$ (0.39)

14. SUBSEQUENT EVENTS (UNAUDITED)

In December 2002 our stockholders approved a recapitalization plan whereby technology owned by Sinclair was transferred to Acrodyne, warrants and options owned by Sinclair and debt owed to Sinclair, was forgiven in exchange for our stock. This transaction was completed in January 2003. Sinclair agreed to:

a) Forgive all indebtedness, payables, accrued and unpaid interest under the outstanding debenture and Lines of Credit amounting to about $9,877,542

b) Assign all intellectual property rights relating to the License agreement

c) Invest an additional $1,000,000

d) Terminate all Sinclair owned warrants

e) Amend the Guaranty and Lease Compensation Agreement, dated September 16, 1999. Amended terms require the payments in 2002 through 2005 to be made in cash with subsequent years paid in cash or stock at our discretion

f) In exchange for the items described above, 20,350,000 shares of the Company's common stock was issued

ACRODYNE COMMUNICATIONS, INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

December 31, 2002

(unaudited)

The following presentation, which sets forth the unaudited pro forma consolidated condensed balance sheet of the Company, assumes the recapitalization transaction described took place on December 31, 2002. The pro forma consolidated balance sheet should be read in conjunction with the description of the recapitalization and the historical consolidated financial statements of the Company.

	Historical	Adjustments	Pro Forma
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	$ 312,921	$ 1,000,000(c)	$ 1,312,921
Accounts receivable, net of allowance for doubtful accounts of $38,600	2,204,044		2,204,044
Inventories, net	3,271,066		3,271,066
Prepaid assets and deposits	78,998		78,998
Total current assets	5,867,029	1,000,000	6,867,029

	Historical	Adjustments	Pro Forma
PROPERTY, PLANT AND EQUIPMENT, net	3,407,611		3,407,611
LICENSE AGREEMENT, net of accumulated amortization of $825,000	675,000		675,000
Total assets	$ 9,949,640	$ 1,000,000	$ 10,949,640
LIABILITIES AND SHAREHOLDERS' DEFICIT			
CURRENT LIABILITIES:			
Line of credit related party	$ 5,133,759	$ (5,133,759)(a)	$ 0
Subordinated debenture related party	2,000,000	(2,000,000)(a)	0
Current portion of capital lease obligations	625,259	(468,616)(a)	156,643
Accounts payable	2,353,444		2,353,444
Accrued expenses	2,176,782		2,176,782
Customer advances	3,014,996		3,014,996
Other current liabilities	1,891,878	(1,600,167)(a)	291,711
Total current liabilities	17,196,118	(9,202,542)	7,993,576
CAPITAL LEASE OBLIGATIONS, net of current portion	3,701,038		3,701,038
LICENSE FEE PAYABLE long term	675,000	(675,000)(a)	0
NON-COMPETE LIABILITY	731,231		731,231
Total liabilities	22,303,387	(9,877,542)	12,425,845
SHAREHOLDERS' DEFICIT:			
Common stock, par value $.01; 7,409,608 and 27,759,608 issued and outstanding, respectively	74,096	203,500(f)	277,596
Additional paid-in capital	22,071,641	10,674,042(f)	32,745,683
Accumulated deficit	(34,499,484)		(34,499,484)
Total shareholders' deficit	(12,353,747)	10,877,542	(1,476,205)
Total liabilities and shareholders' deficit	$ 9,949,640	$ 1,000,000	$ 10,949,640

This recapitalization plan was completed in January of 2003, raising Sinclair's ownership to approximately 82.4% of Acrodyne's issued and outstanding common stock.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Acrodyne Communications, Inc.:

We have audited the accompanying consolidated balance sheets of Acrodyne Communications, Inc. (a Delaware corporation) and subsidiary as of December 31, 2000, and the related consolidated statements of operations, shareholders' equity (deficit) and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Acrodyne Communications, Inc. and subsidiary as of December 31, 2000, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States.

As explained in Note 2 to the financial statements, effective January 1, 2000, the Company changed its method of accounting for revenue.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the financial statements, the Company has incurred recurring losses from operations and has net capital and working capital deficiencies that raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 1. The accompanying financial statements do not include any adjustments relating to the recoverability and classification of asset carrying amounts or the amount of and classification of liabilities that might result should the Company be unable to continue as a going concern.

Arthur Andersen LLP

Philadelphia, Pennsylvania
April 13, 2001

This report is a copy of a previously issued Arthur Andersen LLP report and the report has not been reissued by Arthur Andersen LLP, nor has Arthur Andersen LLP provided a consent to the inclusion of its report in this Form 10 K/A.

ACRODYNE COMMUNICATIONS, INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

	December 31,	
	2001	**2000**
	(unaudited)	**(audited)**
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 17,687	$ 86,959
Accounts receivable, net of allowance for doubtful accounts of $500,000 and $389,000 at December 31, 2001 and 2000, respectively	1,466,788	944,225
Inventories, net	1,281,512	2,286,887
Prepaid assets	44,955	58,555
Other current assets		500,524

	December 31,	
Total current assets	2,810,942	3,877,150
PROPERTY, PLANT AND EQUIPMENT, net	3,771,969	4,150,926
LICENSE AGREEMENT, net of accumulated amortization of $525,000 and $225,000 at December 31, 2001 and 2000, respectively	975,000	1,275,000
TOTAL ASSETS	$ 7,557,911	$ 9,303,076
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)		
CURRENT LIABILITIES:		
Line of credit related party	$ 5,133,759	$ 1,158,753
Subordinated debenture related party	2,000,000	2,000,000
Accounts payable	1,946,907	1,737,230
Accrued expenses	1,185,828	1,420,094
Customer advances	2,879,995	4,723,430
Current portion of capital lease obligations	116,478	9,494
Deferred revenue	14,103	2,290,085
Other current liabilities	1,445,016	651,000
Total current liabilities	14,722,086	13,990,086
CAPITAL LEASE OBLIGATIONS, net of current portion	3,757,987	3,776,948
LICENSE FEE PAYABLE long term	975,000	1,200,000
NON-COMPETE LIABILITY	845,912	845,912
Total liabilities	20,300,985	19,812,946
SHAREHOLDERS' EQUITY (DEFICIT):		
Convertible, redeemable, 8% preferred stock, par value $1.00; 1,000,000 shares authorized; 6,500 shares issued and outstanding at December 31, 2000		6,500
Common stock, par value $.01; 30,000,000 shares authorized; 7,409,608 and 6,981,161 shares issued and outstanding at December 31, 2001 and 2000, respectively	74,096	69,812
Additional paid-in capital	22,071,641	21,496,778
Accumulated deficit	(34,888,811)	(32,082,960)
Total shareholders' equity (deficit)	(12,743,074)	(10,509,870)
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)	$ 7,557,911	$ 9,303,076

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

ACRODYNE COMMUNICATIONS, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF OPERATIONS

	For the Year Ended December 31,	
	2001	**2000**

	For the Year Ended December 31,	
	(unaudited)	(audited)
NET SALES		
Related party sales, net	$ 8,795,294	$ 2,591,364
Other sales, net	5,099,967	4,304,465
	13,895,261	6,895,829
COST OF SALES	9,801,459	8,729,960
Gross profit (loss)	4,093,802	(1,834,131)
OPERATING EXPENSES		
Engineering	2,052,644	1,701,258
Selling	1,069,504	1,162,202
Administration	2,557,414	3,034,253
Amortization of intangible assets	300,000	340,749
Goodwill and non-compete write-off		4,144,284
	5,979,562	10,382,746
Operating loss	(1,885,760)	(12,216,877)
OTHER (EXPENSES) INCOME		
Interest expense, net	(854,919)	(775,020)
Other income, net	171,475	7,711
Loss before income taxes	(2,569,204)	(12,984,186)
INCOME TAXES		
NET LOSS	(2,569,204)	(12,984,186)
Dividends on 8% convertible redeemable preferred stock	(28,056)	(52,000)
Inducement to convert preferred to common shares	(208,591)	
NET LOSS APPLICABLE TO COMMON SHAREHOLDERS	$ (2,805,851)	$ (13,036,186)
NET LOSS PER COMMON SHARE BASIC AND DILUTED	$ (0.39)	$ (1.84)
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING BASIC AND DILUTED	7,177,189	7,097,789

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

ACRODYNE COMMUNICATIONS, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (DEFICIT)

FOR THE YEARS ENDED DECEMBER 31, 2001 (UNAUDITED) AND 2000 (AUDITED)

	Preferred Stock		Common Stock		Additional Paid-In Capital	Accumulated Deficit	Total Shareholders' Equity (Deficit)
	Shares	Amount	Shares	Amount			
BALANCE AT DECEMBER 31, 1999	6,500	$ 6,500	6,906,161	$ 69,062	$ 21,019,028	$ (19,098,774)	$ 1,995,816
Lease and loan guarantee payable in stock (Note 7)					305,500		305,500
Exercise of warrants			75,000	750	224,250		225,000
Dividends on preferred stock					(52,000)		(52,000)
Net loss						(12,984,186)	(12,984,186)
BALANCE AT DECEMBER 31, 2000	6,500	$ 6,500	6,981,161	$ 69,812	$ 21,496,778	$ (32,082,960)	(10,509,870)
Warrants issued to settle lawsuit					336,000		336,000
Conversion of Preferred to common stock	(6,500)	(6,500)	189,410	1,894	4,606		
Stock dividend			28,339	283	27,773	(28,056)	
Inducement to convert preferred to common stock			210,698	2,107	206,484	(208,591)	
Net loss						(2,569,204)	(2,569,204)
BALANCE AT DECEMBER 31, 2001		$	7,409,608	$ 74,096	$ 22,071,641	$ (34,888,811)	$ (12,743,074)

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

ACRODYNE COMMUNICATIONS, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Year Ended December 31,	
	2001	2000
	(unaudited)	(audited)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (2,569,204)	$ (12,984,186)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	708,560	654,471
Issuance of warrants for legal proceedings	336,000	
Provision for lease and loan guarantee		305,500
Provision for bad debts	78,903	341,483

	For the Year Ended December 31,	
Write-off of goodwill and non-compete agreement		4,144,284
Changes in assets and liabilities:		
Accounts receivable	(601,466)	(84,440)
Inventories	1,005,375	912,662
Prepaid and other current assets	514,124	9,029
Accounts payable	209,677	(64,653)
Accrued expenses and other liabilities	559,750	1,498,861
Deferred revenue	(2,275,982)	1,471,173
Customer advances	(1,843,435)	1,489,468
Net cash used in operating activities	(3,877,698)	(2,306,348)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(29,603)	(117,799)
Sale (purchase) of short-term investment		200,000
Net cash (used in) provided by investing activities	(29,603)	82,201
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance and exercise of warrants		225,000
Borrowings (Repayments) under line of credit	3,838,029	(454,651)
Borrowings under debenture		2,000,000
Capital lease (repayments)		(72,193)
Preferred dividends		(52,000)
Net cash provided by financing activities	3,838,029	1,646,156
Net decrease in cash and cash equivalents	(69,272)	(577,991)
Cash and cash equivalents at beginning of year	86,959	664,950
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 17,687	$ 86,959
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid for interest	$	$ 168,173
Property and Equipment acquired through capital leases	$	$ 3,776,667
Dividends paid in Company Stock	$ 28,056	$
Funding of Capital Lease related party	$ 136,977	$

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

ACRODYNE COMMUNICATIONS, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2001 (UNAUDITED) AND 2000 (AUDITED)

1. BACKGROUND:

Organization

Acrodyne Holdings, Inc. (the "Company"), a Delaware corporation, was formed in May 1991. In 1995, the Company changed its name to Acrodyne Communications, Inc. The Company operates in one industry segment the design, manufacture and marketing of television broadcast transmitters, which are sold in the United States and internationally.

On May 16, 1994, the Company entered into agreements to acquire all of the outstanding stock of Acrodyne Industries, Inc. ("Acrodyne Industries"), a company engaged in the manufacture and sale of TV transmitters, LPTV transmitters and TV translators, which are produced to customer specification. The acquisition was consummated on October 24, 1994 with proceeds obtained from a public offering of the Company's common stock.

Operations and Business Risk

Due to the nature of the Company's business, it is subject to various risks including, but not limited to, technological and market acceptance of its product, capital availability, dependence on management and other risks. The Company has been in the process of developing products and applications using digital transmission technology. Related to this process, the Company entered into a license agreement with Sinclair Broadcast Group, Inc. ("Sinclair") in March 2000 (see Note 9). The Company shipped the first of its digital transmitters in March 2001.

Since the acquisition of Acrodyne Industries in 1994, the Company has incurred significant losses including net losses of $2,569,204 and $12,984,186 in 2001 and 2000, respectively. In addition, the Company has generated operating cash flow deficits of $3,877,698 and $2,306,348 in 2001 and 2000, respectively. These losses and cash flow deficits have been funded primarily with proceeds from the sale of equity securities, borrowings, and customer advances. Sinclair purchased and exercised warrants for $225,000 in 2000 and provides a $2,000,000 subordinated debenture and the Company's Credit Facility (see Note 6). As of December 31, 2001, Sinclair owned 32.6% of the Company's common stock and has warrants to purchase 8,644,225 additional shares (see Notes 7 and 9), which represented 60.4% of the Company on a fully diluted basis.

Sinclair had provided a guarantee of the Company's $2,500,000 credit facility. In November 2000, Sinclair purchased the credit facility from a former bank (see Note 6). In March 2000, Sinclair agreed to provide additional funds to the Company of up to $2,000,000 under terms of a subordinated debenture (see Note 9). From January 1, 2001 through December 31, 2001, Sinclair provided additional funds to the Company in the amount of $3,975,006.

The Company's ability to continue as a going concern depends upon: (1) market acceptance of the Company's new digital product; (2) the Company's ability to generate sufficient revenues to achieve and sustain positive cash flow; and (3) the Company's ability to raise the necessary capital to fund operating needs and finance the planned investment. The factors noted above raise substantial doubt concerning the ability of the Company to continue as a going concern. The consolidated financial statements do not include any adjustments relating to the recoverability and classification of asset carrying amounts or the amount and classification of liabilities that might result should the Company be unable to continue as a going concern.

The Company is currently exploring options available to it to raise capital. Among the options is a potential recapitalization of the Company by Sinclair. Under terms of the proposed recapitalization, which has yet to be executed, Sinclair would receive additional common stock in exchange for forgiveness of certain amounts owed to Sinclair by the Company and would cancel certain existing warrants and receive additional warrants as part of a new secured line of credit. As a result of this transaction, Sinclair would own approximately 80% of the Company. In addition, Sinclair has orally committed to purchase all of its UHF transmitter requirements from the Company.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The following summarizes the significant accounting policies employed by the Company in preparation of its consolidated financial statements:

Consolidation

The financial statements include the accounts of the Company and its wholly owned subsidiary, Acrodyne Industries. All inter company transactions and balances are eliminated in consolidation. Certain prior year amounts have been reclassified to conform to current year presentation.

Cash and Cash Equivalents

The Company considers all short-term investments with an original maturity of three months or less to be cash equivalents.

Inventory

Inventory includes material, direct labor and overhead and is valued at the lower of cost or market on a first-in, first-out basis.

Property and Equipment

Property and equipment are carried at cost. The cost of additions and improvements are capitalized, while maintenance and repairs are charged to operations when incurred. The cost and related accumulated depreciation of assets sold, retired or otherwise disposed of are removed from the respective accounts and any resulting gain or loss is recorded in the statement of operations. Depreciation is recorded using the straight-line method over the estimated useful lives of the assets, primarily three to seven years. Leasehold improvements are amortized over the shorter of their useful lives or the remaining lease terms. Capital leases are depreciated over their useful lives or lease term, as applicable.

Customer Advances

Deposits received from customers on orders for purchase of products are recorded as a liability.

Revenue Recognition

In December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin ("SAB") No. 101, "Revenue Recognition in Financial Statements." SAB No. 101 summarizes the staff's views in applying generally accepted accounting principles to selected revenue recognition issues. Guidance is provided with respect to the recognition, presentation and disclosure of revenue in the financial statements. The Company implemented the provisions of SAB 101 in the fourth quarter of 2000, retroactive to January 1, 2000. Effective January 1, 2000, the Company changed its method of accounting for transmitter sales such that the Company recognizes revenue from the sale of transmitters when title and risks of ownership are transferred to the customer, which generally occurs upon shipment or customer pick-up of the equipment or completion of the installation process if the Company is obligated to perform the installation. Effective January 1, 2001, the Company changed its business practice with respect to installations, which are now separately negotiated. For those customers which engaged the Company to install the equipment they have purchased, the Company subcontracts those services to a third party under the supervision of company technical personnel. Installation revenue is recognized when the service is complete.

A customer may be invoiced for and receive title to transmitters prior to taking physical possession when the customer has made a fixed, written commitment for the purchase, the transmitters have been completed, tested and are available for pick-up or delivery, and the customer has requested that the Company hold the transmitters until the customer determines the most economical means of taking physical possession. Upon such a request, the Company recognizes revenue if it has no further obligation except to segregate the transmitters, invoice the customer under normal billing and credit terms, and hold the transmitter for a short period of time as is customary in the industry. There were no such sales for the year ended December 31, 2001.

Transmitters are built to customer specification and no right of return or exchange privileges are granted. Accordingly, no provision for sales allowances or returns is recorded. The Company records revenue for services related to installation of transmitters upon completion of the installation process. Amounts which cannot be recognized in accordance with the above policy are recorded as deferred revenue in the

accompanying consolidated balance sheets. The adoption of SAB No. 101, in the fourth quarter of 2000, resulted in an increase in reported revenues for the years ending December 31, 2001 and 2000 of approximately $2,276,000 and $540,000, respectively.

Concentration of Credit Risk

The Company's customers are domestic and international television stations, broadcasters, government entities, not-for-profit organizations and educational institutions. International sales were $591,876 and $1,035,037 for the years ended December 31, 2001 and 2000, respectively. One customer, Sinclair (see Note 9), represented approximately 63% of sales in 2001 and 38% in 2000 and 50% of receivables in 2001 and 19% in 2000. No other customers represented more than 10% of sales in 2001 or 2000.

Use of Estimates

The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities; disclosure of contingent assets and liabilities at the date of the financial statements; and the reported amount of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Research and Development

Research and development expenditures related to the design and development of new products are expensed as incurred and as such are included in engineering department expenses in the accompanying consolidated statements of operations. Research and development costs charged to expense during the years ended December 31, 2001 and 2000 were approximately $524,000 and $1,057,000, respectively.

Income Taxes

The Company records deferred income taxes for the estimated future tax effects of temporary differences between financial statement carrying amounts and the tax basis of existing assets and liabilities. Under this method, deferred tax assets and liabilities are recognized for the tax effects of temporary differences between the financial reporting and tax basis of assets and liabilities using enacted rates. A valuation allowance is recorded against deferred tax assets when it is concluded that it is more likely than not that the related tax benefit will not be realized.

Fair Value of Financial Instruments

The Company's consolidated financial instruments include cash and cash equivalents, short-term investments, accounts receivable, capital leases and debt. The fair value of cash and cash equivalents, short-term investments and accounts receivable approximate their recorded book values as of December 31, 2001 and 2000. Because of the uncertainty regarding the Company described in Note 1, it is not practical to estimate the fair value of the capital leases and debt.

Impairment of Long-Lived Assets

The Company periodically performs analyses on the recoverability of long-lived assets under the provision of Statement of Financial Accounting Standards ("SFAS") No.121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." The Statement requires the recognition of an impairment loss for an asset held for use when the estimated future undiscounted cash flows associated with the asset is less than the asset's carrying amount. Measurement of the impairment loss is based on the fair value of the asset, which is determined using the present value of expected future cash flows. No impairment losses were recorded during 2001. See Note 5 to the consolidated financial statements for discussion of impairment charges recorded in 2000.

New Accounting Pronouncements

The Financial Accounting Standards Board's Emerging Issues Task Force released Issue 00-10 "Accounting for Shipping and Handling Fees and Costs," which requires amounts charged to customers for shipping and handling to be classified as revenue and the related costs to be classified as cost of sales. Issue 00-10 was applicable no later than the fourth quarter of fiscal years beginning after December 15, 1999, and was adopted by the Company in 2000. As a result of the adoption of Issue 00-10, the Company classified approximately $58,000 and $135,000 of charges to customers for shipping and handling as net sales within the accompanying consolidated statement of operations for the years ended December 31, 2001 and 2000, respectively. This policy had no effect on the Company's consolidated financial position or results of operations.

On July 20, 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) 141, *Business Combinations*, and SFAS 142, *Goodwill and Intangible Assets*. SFAS 141 is effective for all business combinations completed after June 30, 2001. SFAS 142 is effective for fiscal years beginning after December 15, 2001; however, certain provisions of this Statement apply to goodwill and other intangible assets acquired between July 1, 2001 and the effective date of SFAS 142. Major provisions of these Statements and their effective dates for the Company are as follows:

All business combinations initiated after June 30, 2001 must use the purchase method of accounting. The pooling of interest method of accounting is prohibited except for transactions initiated before July 1, 2001.

Intangible assets acquired in a business combination must be recorded separately from goodwill if they arise from contractual or other legal rights or are separable from the acquired entity and can be sold, transferred, licensed, rented or exchanged, either individually or as part of a related contract, asset or liability

Goodwill, as well as intangible assets with indefinite lives, acquired after June 30, 2001, will not be amortized. Effective January 1, 2002, all previously recognized goodwill and intangible assets with indefinite lives will no longer be subject to amortization.

effective January 1, 2002, goodwill and intangible assets with indefinite lives will be tested for impairment annually and whenever there is an impairment indicator

all acquired goodwill must be assigned to reporting units for purposes of impairment testing and segment reporting.

Management believes the adoption of SFAS 141 and 142 will not have a material impact on the Company's financial position or results of operations.

In August 2001, the FASB issued SFAS 143, *Accounting for Asset Retirement Obligations.* SFAS 143 applies to all entities, including rate-regulated entities, that have legal obligations associated with the retirement of a tangible long-lived asset that result from acquisition, construction or development and (or) normal operations of the long-lived asset. The application of this Statement is not limited to certain specialized industries, such as the extractive or nuclear industries. This Statement also applies, for example, to a company that operates a manufacturing facility and has a legal obligation to

dismantle the manufacturing plant and restore the underlying land when it cease operation of that plant. A liability for an asset retirement obligation should be recognized if the obligation meets the definition of a liability and can be reasonably estimated. The initial recording should be at fair value. SFAS 143 is effective for financial statements issued for fiscal years beginning after June 15, 2002, with earlier application encouraged. The provisions of the Statement are not expected to have a material impact on the financial condition or results of operations of the Company.

In August 2001, the FASB issued SFAS 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*). SFAS No. 144 retains the existing requirements to recognize and measure the impairment of long-lived assets to be held and used or to be disposed of by sale. However, SFAS 144 makes changes to the scope and certain measurement requirements of existing accounting guidance. SFAS 144 also changes the requirements relating to reporting the effects of a disposal or discontinuation of a segment of a business. SFAS 144 is effective for financial statements issued for fiscal years beginning after December 15, 2001 and interim periods within those fiscal years. The adoption of this statement is not expected to have a significant impact on the financial condition or results of operations of the Company.

Earnings per Share

Basic earnings (loss) per share is computed by dividing the net loss applicable to common shareholders by the weighted average number of shares outstanding during the period. Diluted earnings (loss) per share is computed using the weighted average number of shares determined for the basic computations plus the number of shares of common stock that would be issued assuming all contingently issuable shares having a dilutive effect on earnings per share were outstanding for the period.

Due to the Company's net loss in 2001 and 2000, the incremental shares issuable in connection with convertible preferred stock, stock options and warrants were anti-dilutive and, accordingly, are not considered in the calculation (see Note 7).

3. INVENTORIES:

Inventories consist of the following:

	December 31,	
	2001	2000
	(unaudited)	(audited)
Raw materials	$ 2,192,096	$ 2,158,035
Work-in-process	449,742	139,523
Finished goods	116,110	1,506,022
Total Inventory	2,757,948	3,803,580
Allowance for obsolete inventory	(1,476,436)	(1,516,693)
Inventory, net	$ 1,281,512	$ 2,286,887

4. PROPERTY AND EQUIPMENT:

Property and equipment consist of the following:

	December 31,	
	2001	2000
	(unaudited)	(audited)
Test equipment	$ 690,273	$ 692,098
Machinery and equipment	52,755	63,522
Office furniture and equipment	436,866	398,606
Automobile		19,577
Building lease /leasehold improvements	3,781,167	3,781,167
Purchased computer software	120,646	116,711
	5,081,707	5,071,681
Accumulated depreciation and amortization	(1,309,738)	(920,755)
	$ 3,771,969	$ 4,150,926

Depreciation and amortization expense amounted to $708,560 and $313,722 for the years ended December 31, 2001 and 2000, respectively.

The Company moved into a new facility in November 2000. This facility is subleased from Sinclair and is capitalized at $3,776,667. Amortization expense was $258,201 in 2001 and $41,963 in 2000. The net book value of the capital lease at December 31, 2001 and 2000 is $3,476,503 and $3,734,704, respectively. The lease term is fifteen years with two renewable five-year periods (see note 10).

5. NON-COMPETE AGREEMENT AND GOODWILL:

During the third quarter of 2000, the Company determined that as a result of the combination of regulatory changes, evolving technology, changes dictated by the market place, changes to key management and continued negative profit margins for its medium and low power transmitter product line, it would exit such product line. This product line was acquired by the Company in 1994 (see Note 1). As a result of this decision, the Company reviewed all of the long-term assets of its medium and low power product line (principally goodwill, covenant not-to-compete and property and equipment) for impairment. As a result of this review, management concluded that these assets had been permanently impaired and, as such, recorded a charge to write-off all goodwill and certain other long-term assets in the amount of $4,144,284 during the third quarter of 2000, which includes $323,322 related to the non-compete intangible asset and $3,820,962 related to goodwill.

In connection with the acquisition of Acrodyne Industries, the Company entered into a non-compete agreement with the selling shareholder. In consideration for this agreement not to compete, the Company is obligated to make annual payments to the selling shareholder of $65,000 annually and pay for certain benefits for the remainder of his life. The Company recorded the actuarial present value of the estimated payments of $750,000 related to this agreement as an asset and established a corresponding liability at the date of acquisition. During the years ended December 31, 2001 and 2000, the Company recorded interest expense of $0 and $56,927, respectively, relating to this liability. The company is currently negotiating to terminate this agreement.

Prior to being written off, the value of the non-compete agreement was being amortized on a straight-line basis over a ten-year period. Amortization expense of $37,500 was recorded during the year ended December 31, 2000.

In connection with the 1994 acquisition of Acrodyne Industries (see Note 1), the Company recorded goodwill totaling $4,711,274 representing the excess of purchase price over the fair value of net assets acquired. Prior to being written off in 2000, goodwill was amortized on a straight-line basis over 30 years. Amortization charged to expense during the year ended December 31, 2000 amounted to $78,249.

6. DEBT:

The line of credit, subordinated debenture and capital lease obligations (test equipment and property) consist of the following:

	December 31,	
	2001	2000
	(unaudited)	(audited)
Line of credit (Note 9)	$ 5,133,759	$ 1,158,753
Subordinated debenture with Sinclair Broadcast Group, Inc.	2,000,000	2,000,000
Capital lease obligations (Note 10)	3,874,465	3,786,442
	$ 11,008,224	$ 6,945,195
Current portion	(7,250,238)	(3,168,247)
	$ 3,757,986	$ 3,776,948

The line of credit and the subordinated debenture are due on demand.

In September 1999, the Company entered into a new credit facility (the "Credit Facility") with PNC Bank, N.A. that provided for a $2,500,000 line of credit. The Credit Facility bore interest at LIBOR plus 200 basis points (3.88% at December 31, 2001 and 8.56% at December 31, 2000) and replaced a prior $2,000,000 line of credit facility maintained with another bank. The Credit Facility was collateralized by all personal property of the Company and was guaranteed by Sinclair. The Credit Facility, which expired on July 31, 2000, was extended to

October 31, 2000. The Company was obligated to maintain minimum tangible net worth, as defined, of $4,500,000. As of December 31, 1999, the Company was not in compliance with terms of the Credit Facility with respect to minimum tangible net worth. The Company had obtained a waiver for the 1999 event of default. The Company was not in compliance with terms of the credit facility as of September 30, 2000. Effective October 31, 2000, the minimum tangible net worth requirement was eliminated. In November 2000, Sinclair purchased the Credit Facility and assumed all rights of the bank (see Note 9). At December 31, 2001 and 2000, the borrowing on this credit facility was $1,158,753. On April 27, 2001, we entered into an additional $4,000,000 line of credit facility with Sinclair. This line of credit requires monthly interest-only payments at a fixed rate of interest of 12% per annum and matures upon demand by Sinclair. The weighted-average interest rate and total interest expense related to the lines of credit during 2001 were 12.0% and $190,295 respectively, and during 2000 were 8.3% and $111,226, respectively. Average

borrowings related to the Credit Facility during 2001 and 2000 were $1,559,848 and $1,343,304, respectively. The maximum amount borrowed under both facilities was approximately $5,133,759 in 2001 and $1,600,000 in 2000. The amount available under the Credit Facility at December 31, 2001 was $24,994 on the $4,000,000 line.

During March 2000, the Company entered into a subordinated debenture agreement (the "Debenture") with Sinclair. Under the terms of the Debenture, the Company may borrow up to $2,000,000 at an interest rate of 10.5%. The first payment of interest shall be made April 1, 2000 and on a monthly basis thereafter. Principal is payable upon demand of Sinclair. Further, Sinclair has the right, at any time, to convert all, but not less than all, of the principal owed to Sinclair into the Company's common stock at $3.45 per share. As of December 31, 2001 and 2000, the Company had borrowed $2,000,000 under the terms of this arrangement. During 2001 and 2000, the Company recorded $210,000 of interest due under the Debenture Agreement.

The weighted average interest rate on long-term debt at December 31, 2001 and 2000 was 11.4% and 9.2%, respectively.

7. SHAREHOLDERS' EQUITY:

Preferred Stock

Preferred stock consists of 1,000,000 shares, par value $1 per share, which may be issued in series from time to time with such designation, rights, preferences and limitations as the Board of Directors of the Company may determine by resolution. Any and all such rights that may be granted to preferred stockholders may be in preference to common stockholders.

During 1996, the Company sold 10,500 shares of 8% Convertible Redeemable Preferred Stock (the "8% Preferred Stock") in a private placement. The 8% Preferred Stock had a liquidation preference of $100 per share plus all outstanding and unpaid dividends and was redeemable at the discretion of the Company for the amount of the liquidation value after one year from issuance date provided certain stipulations were met. The 8% Preferred Stock was convertible at the option of the holder into the number of common shares obtained by dividing the liquidation value by the $3.71 per share conversion price, subject to adjustment. Holders of the 8% Preferred Stock voted on a fully converted basis with the holders of common stock and, in the event of certain dividend arrearages, had the right to elect a director to the Company's Board. During 1997, 4,000 shares of the 8% Preferred Stock were converted into common stock at a conversion price of $4.00 per share; 6,500 shares remained outstanding at the end of 2000. On July 17, 2001 the 6,500 shares plus dividends in arrears were converted to 428,447 shares of common stock.

During 1998, the Company sold 326,530 shares of Series A 8% Convertible Redeemable Preferred Stock (the "Series A Preferred Stock") in a private placement for net proceeds of $972,668. In connection with this private placement, the Company issued warrants to purchase up to 525,000 shares of common stock at an exercise price of $3.00 per share. The warrants are exercisable through November 7, 2002. On January 27, 1999, the Series A Preferred Stock was redeemed by the Company for $998,531.

Common Stock

On November 7, 1997, the Company sold 800,000 shares of common stock and warrants to purchase up to an additional 500,000 shares of common stock for aggregate net proceeds of $1,951,800. The warrants issued in connection with this transaction carry an exercise price of $3.00 per common share and expire on November 7, 2002.

On January 27, 1999, the Company increased the number of authorized shares of common stock from 10,000,000 to 30,000,000. Concurrent with this change, the Company sold 1,431,333 shares of common stock and warrants to purchase up to an additional 8,719,225 shares of common stock to Sinclair in a private placement for aggregate proceeds of $4,300,000. Transaction costs of $494,626 were incurred in connection with this transaction. The Company utilized $998,531 of the proceeds from this transaction to redeem the Series A Preferred Stock as discussed above.

On December 20, 1999, the Company committed to issue 112,000 shares of common stock to Sinclair with a fair market value of $270,000 in accordance with terms of the Guaranty and Lease Compensation Agreement, dated December 20, 1999 (see Note 9). These shares are included in outstanding shares.

In 2000, on the anniversary dates of the above agreements, the Company was obligated to issue additional shares to compensate Sinclair for its guarantees. In the fourth quarter of 2000, 589,506 shares were obligated to be issued with a fair value of $305,500. This amount was recorded as an addition to Additional Paid-in Capital and was considered outstanding for the purposes of the basic earnings per share calculation in 2000.

Warrants and Options

In connection with the initial Sinclair investment discussed above, the Company executed various agreements dated January 27, 1999, giving Sinclair the right to purchase up to 8,719,225 shares of the Company's common stock. Of these warrants, Sinclair may purchase 2,000,000 shares at an exercise price of $3.00 per share based on the following vesting schedule:

Date	Cumulative Total Shares
From and after January 27, 1999	666,666
From and after January 27, 2000	1,333,333
From and after January 27, 2001 (unaudited)	2,000,000

In addition, 719,225 anti-dilution warrants to purchase the Company's stock at $3.00 per share (subject to adjustment based on a formula defined in the related warrant agreement), and 6,000,000 warrants which are exercisable only upon the Company achieving increased product sales or sales of products with new technology. These warrants may be exercised at prices ranging from $3.00 to $6.00 per share. The expiration date of all warrants mentioned above is January 26, 2006. At December 31, 2001, Sinclair had 8,644,225 warrants to purchase the Company's common stock.

The following warrants and options (excluding employee and director stock options) were outstanding at December 31, 2001 and 2000:

2001 (unaudited)	2000 (audited)	Exercise Price	Expiration Date
	200,000	$ 6.00	May 24, 2001
500,000	500,000	3.00	November 7, 2002
525,000	525,000	3.00	September 4, 2005
	111,600	3.00	May 1, 2005
1,925,000	1,925,000	3.00	January 26, 2006
719,225	719,225	3.00	January 26, 2006
6,000,000	6,000,000	3.00-6.00	January 26, 2006
	25,000	3.50	June 5, 2008
1,600,000		1.00	July 26, 2006
11,269,225	10,005,825		

Employee Stock Options

In December 1993, the Company adopted the 1993 Stock Option Plan (the "1993 Plan"). A total of 250,000 shares of common stock options were issuable under the 1993 Plan. The options may be incentive stock options or non-qualified stock options. The maximum term of each option under the 1993 Plan is 10 years.

In April 1997, the Company adopted the 1997 Stock Option Plan (the "1997 Plan") under which 650,000 options have been authorized. In June 1998, the Board granted 450,000 options under the 1997 Plan to employees. The options had an exercise price of $4.50 per share. On October 16, 1998, the Board of Directors repriced the exercise price of these options to $3.00 per share.

In January 1999, the Board granted 175,000 options under the 1997 Plan to an employee. The options had an exercise price of $3.88 per share. The fair market value of the Company's stock on the date of grant was $4.06. No compensation related to the option grant was recorded in 1999.

In March 1999, the Company adopted the 1999 Long-Term Incentive Plan (the "1999 Plan") under which awards may be granted in the form of stock, restricted stock, stock options, stock appreciation rights or cash. Under the 1999 Plan, the Company may make stock-based awards of up to an aggregate of 2,000,000 shares of common stock. In August 1999, the Board granted 370,000 options to employees and directors under the 1999 Plan. The majority of these options vested immediately. The options had an exercise price of $2.34 per share. The fair market value of the Company's stock on the date of grant was $2.31. No compensation related to these option grants was recorded in 1999.

On June 9, 2000, the Company issued 439,700 options to employees and key individuals under the 1999 Plan. The options had an exercise price of $2.25 to $3.00 per share and expiration dates ranging from May 1, 2005 to July 1, 2007. The value of the Company's common stock on the date of grant was $2.25 per share.

The Company applies Accounting Principles Board (APB) Opinion 25, "Accounting for Stock Issued to Employees" and related interpretations in accounting for its option plans. Had compensation cost for the Company stock-based plans been determined based on the fair value at the grant date for awards consistent with the method of SFAS No. 123"Accounting for Stock-Based Compensation", the Company's net loss and loss per share would have been increased to the pro forma amounts indicated below:

	December 31,	
	2001	2000
	(unaudited)	(audited)
Net loss applicable to common shareholders:		
As reported	$ (2,805,851)	$ (13,036,186)
Pro forma	(2,812,126)	(12,756,768)
Net loss per common share (basic and diluted):		
As reported	$ (0.39)	$ (1.84)
Pro forma	(0.38)	(1.80)

The fair value of each option grant was estimated on the date of grant using the Black-Scholes option pricing model using the following parameters: 89% volatility, 6.7% risk-free rate of return, 0% dividend yield and five to seven year option life.

A summary of the awards under the Company's stock option plans during the years ended December 31, 2001 and 2000 is presented below:

	December 31, 2001		December 31, 2000	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price

	December 31, 2001 (unaudited)		December 31, 2000 (audited)	
Outstanding at the beginning of year		$ 2.59	1,165,000	$ 3.03
Granted	1,153,800		641,300	2.61
Exercised				
Rescinded/forfeited	(139,500)	(2.12)	(662,500)	(3.34)
Outstanding at year end	1,014,300	$ 2.73	1,143,800	$ 2.59
Options exercisable at year end	542,500	$ 2.55	517,500	$ 2.54
Weighted average fair value of options granted during the year		N/A		$ 1.61

Options to purchase 502,500 of common stock were outstanding during 2001. They were not included in the computation of the loss per share because the average exercise price was higher than the average market price of the stock and would be considered anti-dilutive.

8. INCOME TAXES:

The provision for income taxes differs from the amount computed using the federal income tax rate as follows:

	December 31, 2001 (unaudited)	December 31, 2000 (audited)
Income tax benefit at statutory federal rates	$ (943,581)	$ (4,544,465)
State tax benefit, net of federal tax benefit	(151,305)	(499,887)
Goodwill amortization and write-off		1,364,723
Other permanent differences	22,400	13,039
Increase in valuation allowance	1,072,489	3,666,590
	$	$

The components of the net deferred income tax asset (liability) are as follows:

	December 31, 2001 (unaudited)	December 31, 2000 (audited)
Deferred tax assets:		
Tax loss carryforwards (tax basis)	$ 10,197,616	$ 9,118,430
Allowance for doubtful accounts	200,000	155,596
Non-compete agreement	411,753	411,753
Inventory	795,962	812,065
Other deferred tax assets	19,794	54,792

	December 31,	
Net deferred tax assets	$ 11,625,125	10,552,636
Valuation allowance	(11,625,125)	(10,552,636)
	$	$

A full valuation allowance has been established against the Company's net deferred tax assets as management has concluded that it is more likely than not the related tax benefits may not be realized.

The Company's tax loss carryforwards, which begin to expire in 2011, totaled approximately $24,300,000 and $22,800,000 at December 31, 2001 and 2000, respectively.

9. RELATED PARTY:

As discussed in Note 7**,** on January 27, 1999, Sinclair invested $4,300,000 in the Company in return for 1,431,333 shares of the Company's common stock and warrants to purchase up to an aggregate of 8,719,225 shares over a term of up to seven years at prices ranging from $3.00 to $6.00 per share. Sinclair also acquired an additional 800,000 shares of common stock previously held by outside investors. On December 20, 1999, the Company committed to issue 112,000 shares to Sinclair with respect to the terms of a Guaranty and Lease Compensation Agreement (see discussion below). As of December 31, 2000, the Company is obligated to issue 589,506 shares to Sinclair with respect to the terms of the Guaranty and Lease Compensation Agreement. As of December 31, 2001 and 2000,

Sinclair held an aggregate of 2,418,333 shares of the Company's common stock, representing approximately 32.64% and 34.6%, respectively, of issued common stock assuming no warrants are exercised.

During November 1999, the Company entered into a Guaranty and Lease Compensation Agreement (the "Guaranty Agreement") with Sinclair, intended to be effective September 16, 1999. In connection with the $2,500,000 Credit Facility discussed in Note 6, the bank required, as a condition of the loan, that Sinclair unconditionally and irrevocably guarantee all of the Company's obligation with respect to the Credit Facility. Under the Guaranty Agreement and as compensation to Sinclair for the guarantee, the Company committed to provide Sinclair the following: (1) $200,000 payable in Company common stock (based upon the closing price as quoted on September 16, 1999), and (2) on October 1, 2000 and payable each year thereafter until the bank no longer requires the guarantee from Sinclair, the Company shall pay Sinclair an amount equal to the average of the line of credit outstanding balances as of the last day of each of the preceding twelve months (not to be less than $1,700,000) multiplied by 12.5% and payable in the form of Company common stock. The $200,000 due Sinclair under the terms of the guarantee was capitalized and was amortized as interest expense over the guarantee period. Of the $200,000 related to this guarantee, $0 and $150,000 were recorded as interest expense during 2001 and 2000, respectively.

In the year ended December 31, 2000, the Company accrued additional interest expense related to the guarantee agreement of $235,500. In November 2000, Sinclair purchased the credit facility discussed in Note 6 and assumed all rights of the bank. Sinclair filed the UCC liens against the Company's personal property, which eliminated the Sinclair guaranty.

During November of 1999, the Company entered into a sublease agreement (the "Lease Agreement") with Sinclair (see Note 10). Under the terms of the Agreement and as compensation for the Lease Agreement, the Company agreed to compensate Sinclair as follows: (1) on the lease execution date, $70,000 payable in the form of Company common stock calculated at the average closing price for the five business days preceding the lease execution date and (2) on each lease anniversary date, $70,000 payable in the form of Company common stock calculated as the average closing price for the five business days preceding the lease anniversary date.

During March 2000, the Company entered into a 10-year license agreement (the "License Agreement") with Sinclair for the exclusive right to manufacture and sell certain Sinclair designed transmitter lines. Under terms of the License Agreement, the Company will pay Sinclair an annual royalty of $300,000 for five years. For years six through ten, the Company shall pay Sinclair an annual royalty equal to 1.0% of revenues realized by the Company attributable to the License Agreement. At end of the tenth year, the Company has the option to purchase the Sinclair technology. The purchase price would be twice the cumulative royalty amount paid to Sinclair for years six through ten.

During March 2000, the Company entered into a subordinated debenture agreement (the "Debenture") with Sinclair. Under the terms of the Debenture, the Company may borrow up to $2,000,000 at an interest rate of 10.5%. The first payment of interest shall be made April 1, 2001 and on a monthly basis thereafter. Principal is payable upon demand by Sinclair. Further, Sinclair has the right, at any time, to convert all, but not less than all, of the principal owed to Sinclair into the Company's common stock at $3.45 per share. Through December 31, 2001 the Company had borrowed

$2,000,000 under the terms of this arrangement. During 2001 and 2000, respectively, the Company recorded interest expense of $210,000 and $115,815 under the Debenture.

In the first quarter of 2001 it was determined by Sinclair that in order for Sinclair to meet their SEC public financial filing requirements that Acrodyne would have to accelerate their audit schedule. Sinclair agreed to pay $150,000 of Acrodyne's audit fees for the year ended 2000, in order to meet the expedited schedule.

Sales made to Sinclair during 2001 and 2000 totaled $8,795,294 and $2,591,364, respectively. The Company sells these products to Sinclair at prices which approximate fair market value. The following amounts are included in the consolidated balance sheets at year end in connection with trade transactions with Sinclair:

	December 31,	
	2001	2000
	(unaudited)	(audited)
Receivables	$ 1,081,028	$ 183,461
Customer advances	1,864,123	3,417,245
Deferred revenue	0	445,650

See Note 1 regarding a proposed Recapitalization Plan involving Sinclair.

10. COMMITMENTS AND CONTINGENCIES (UNAUDITED):

During September 1999, the Company entered into a sublease agreement with Sinclair (see Note 9) for the lease of its headquarters and manufacturing facility, which was occupied during November 2000. Rent expense was $4,502 and $278,822 for the years ended December 31, 2001 and 2000, respectively. Minimum lease payments due under capital leases are as follows:

2002	$ 416,374
2003	427,553
2004	448,103
2005	505,342
2006	518,779
2007 and thereafter	5,331,485
	$ 7,647,636
Less amount representing interest	3,773,171
Present value of obligation	3,874,465
Less current portion	116,478
Non-current obligations under capital leases	$ 3,757,987

Future minimum lease payments under non-cancelable operating leases are as follows:

2002	$ 23,071
2003	23,071
2004	23,071
2005	23,071
2006	
	$ 92,284

11. LEGAL PROCEEDINGS (UNAUDITED):

In September 2000, we were named as defendant, along with two of our directors, in four class action lawsuits filed in the United States District Court for the District of Maryland (Northern Division). These four lawsuits were consolidated into a single lawsuit (the "Lawsuit"). The Lawsuit asserted that we issued false and misleading financial statements. On April 9, 2001, we reached a settlement (the "Settlement") with plaintiffs' counsel. The Settlement required us to issue plaintiffs five (5) year warrants to purchase One Million Six Hundred Thousand (1,600,000) shares of our voting common stock at an exercise price of One Dollar ($1.00) per share and to pay the class plaintiffs Seven Hundred Fifty Thousand Dollars ($750,000). The cash portion of the Settlement was funded by our officers' and directors indemnity insurance policy. The settlement; certified the Lawsuit as a class action; defined those entitled to be included as plaintiffs in the Lawsuit; identified the period during which claims arose; identified a lead plaintiff; set a date of June 26, 2001 as the date for a "Settlement Fairness Hearing;" reserved its right to review the Settlement and/or enter a final judgment approving the Settlement and dismissing the Lawsuit; established a mailing date of April 27, 2000 for plaintiffs' counsel to cause a "Notice and Proof of Claim and Release Form" to be mailed to the class member plaintiffs; approved the form of "Publication Notice" of the pendency of the Lawsuit and Settlement; established a date of not later than August 24, 2001 for receipt of a properly executed "Proof of Claim and Release Form" for those plaintiffs entitled to participate in the Settlement; set certain conditions precedent to the acceptance of the "Proof of Claim and Release Form;" established the date of June 11, 2001 as the final day for any class plaintiff to request exclusion from the Settlement class; and set the date for considering comments and/or objections to the Settlement, "Plan of Allocation," or the award of attorneys' fees and reimbursement of expenses as of June 11, 2001. On June 26, 2001, the Court (i) found the Settlement to be fair, reasonable, and adequate and in the best interests of the parties; (ii) settled, released, discharged and dismissed with prejudice the cases against the defendants; (iii) determined that neither the settlement nor any of the documents or statements associated therewith are, or shall be construed as, a concession or admission by the defendants of the existence of any damages or wrongdoing; and (iv) awarded the plaintiffs' counsel 25% of the gross amount of the Settlement fund as attorneys' fees, which amount is to be paid out of the Settlement fund. As a result of the Settlement, during the three months ended March 31, 2001, the Company recorded a charge to operations of $336,000 which represented the fair value of the warrants issued.

The SEC is currently conducting an investigation of the facts and circumstances that required the company's financial statements and filings to be restated for the year ending 1999 and the first two quarters of 2000. Acrodyne has not been charged with any wrongdoing, is cooperating fully with the

investigation, and has supplied documents to assist in the SEC investigation. Several former employees, a current employee of the company, as well as a Sinclair employee have been subpoenaed and testified before attorneys for the SEC. The duration, facts, and outcome of the investigation can not be estimated by the company at this time.

12. SELECTED QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

	Year ended December 31, 2001			
	Net Sales	Year Gross Profit (Loss)	Net Income (Loss)	Basic and Diluted Net Income (Loss) Per Share
1st Quarter	$ 2,226,178	$ 242,787	$ (1,431,943)	$ (0.21)
2nd Quarter	672,334	(79,165)	(1,879,220)	(0.27)
3rd Quarter	4,740,062	1,683,528	546,887	0.07
4th Quarter	6,256,687	2,246,652	195,072	0.03

	Year ended December 31, 2001			
Total	$ 13,895,261	$ 4,093,802	$ (2,569,204)	$ (0.39)

	Year ended December 31, 2000			
	Net Sales	Year Gross Loss	Net Loss	Basic and Diluted Net Loss Per Share
1st Quarter(Loss)	$ 2,224,060	$ (187,851)	$ (1,457,464)	$ (0.21)
2nd Quarter	954,205	(100,869)	(1,757,463)	(0.25)
3rd Quarter	1,805,406	(1,316,174)	(7,356,063)	(1.06)
4th Quarter	1,912,158	(229,237)	(2,413,206)	(0.35)
Total	$ 6,895,829	$ (1,834,131)	$ (12,984,196)	$ (1.84)

SINCLAIR BROADCAST GROUP, INC. AND SUBSIDIARIES

INDEX TO SCHEDULES

Report of Independent Public Accountants	S-2
Schedule II Valuation and Qualifying Accounts	S-3

All schedules except those listed above are omitted as not applicable or not required or the required information is included in the consolidated financial statements or in the notes thereto.

REPORT OF INDEPENDENT AUDITORS

To the Stockholders of
Sinclair Broadcast Group, Inc.:

We have audited in accordance with the auditing standards generally accepted in the United States, the financial statements of Sinclair Broadcast Group, Inc. and Subsidiaries included in this Form 10-K and have issued our report thereon dated February 10, 2003. Our audit was made for the purpose of forming an opinion on those statements taken as a whole. The schedule listed in the accompanying index is the responsibility of the Company's management and is presented for purposes of complying with the Securities and Exchange Commissions rules and is not part of the basic financial statements. This schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly states in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

/s/ ERNST & YOUNG, LLP

Baltimore, Maryland,
February 10, 2003

SCHEDULE II

SINCLAIR BROADCAST GROUP, INC. AND SUBSIDIARIES

VALUATION AND QUALIFYING ACCOUNTS

FOR THE YEARS ENDED DECEMBER 31, 2000, 2001 AND 2002

(in thousands)

Allowance for doubtful accounts in:	Balance at Beginning Of Period	Charged to Cost and Expenses	Charged to Other Accounts(1)	Deductions	Balance at End of Period
2000	5,016	3,494	75	2,676	5,909
2001	5,909	4,259	(69)	3,877	6,222
2002	6,222	2,890	(1,326)	1,840	5,946

(1) Amount represents allowance for doubtful account balances related to the acquisition of certain television stations and/or the disposition of certain radio stations.

QuickLinks

ITEM 1. BUSINESS

ITEM 6. SELECTED FINANCIAL DATA

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

ITEM 14. CONTROLS AND PROCEDURES
ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K
SIGNATURES
SINCLAIR BROADCAST GROUP, INC. AND SUBSIDIARIES INDEX TO FINANCIAL STATEMENTS
REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS
SINCLAIR BROADCAST GROUP, INC. AND SUBSIDIARIES CONSOLIDATED BALANCE SHEETS (in thousands)
SINCLAIR BROADCAST GROUP, INC. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2002, 2001 AND 2000 (in thousands, except per share data)
SINCLAIR BROADCAST GROUP, INC. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY FOR THE YEARS ENDED DECEMBER 31, 2002, 2001 AND 2000 (in thousands)
SINCLAIR BROADCAST GROUP, INC. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY FOR THE YEARS ENDED DECEMBER 31, 2002, 2001 AND 2000 (in thousands)
SINCLAIR BROADCAST GROUP, INC. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY FOR THE YEARS ENDED DECEMBER 31, 2002, 2001 AND 2000 (in thousands)
SINCLAIR BROADCAST GROUP, INC. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2002, 2001 AND 2000 (in thousands)
SINCLAIR BROADCAST GROUP, INC. AND SUBSIDIARIES Notes to Consolidated Financial Statements December 31, 2002, 2001 and

2000
ACRODYNE COMMUNICATIONS, INC. AND SUBSIDIARY CONSOLIDATED BALANCE SHEETS
ACRODYNE COMMUNICATIONS, INC. AND SUBSIDIARY CONSOLIDATED STATEMENTS OF OPERATIONS
ACRODYNE COMMUNICATIONS, INC. AND SUBSIDIARY CONSOLIDATED STATEMENTS OF SHAREHOLDERS' DEFICIT FOR THE YEARS ENDED DECEMBER 31, 2002 (UNAUDITED) AND 2001 (UNAUDITED)
ACRODYNE COMMUNICATIONS, INC. AND SUBSIDIARY CONSOLIDATED STATEMENTS OF CASH FLOWS
ACRODYNE COMMUNICATIONS, INC. AND SUBSIDIARY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2002 (UNAUDITED) AND 2001 (UNAUDITED)
ACRODYNE COMMUNICATIONS, INC. AND SUBSIDIARY CONSOLIDATED BALANCE SHEETS December 31, 2002 (unaudited)
REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS
ACRODYNE COMMUNICATIONS, INC. AND SUBSIDIARY CONSOLIDATED BALANCE SHEETS
ACRODYNE COMMUNICATIONS, INC. AND SUBSIDIARY CONSOLIDATED STATEMENTS OF OPERATIONS
ACRODYNE COMMUNICATIONS, INC. AND SUBSIDIARY CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (DEFICIT) FOR THE YEARS ENDED DECEMBER 31, 2001 (UNAUDITED) AND 2000 (AUDITED)
ACRODYNE COMMUNICATIONS, INC. AND SUBSIDIARY CONSOLIDATED STATEMENTS OF CASH FLOWS
ACRODYNE COMMUNICATIONS, INC. AND SUBSIDIARY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2001 (UNAUDITED) AND 2000 (AUDITED)
SINCLAIR BROADCAST GROUP, INC. AND SUBSIDIARIES INDEX TO SCHEDULES
REPORT OF INDEPENDENT AUDITORS
SCHEDULE II SINCLAIR BROADCAST GROUP, INC. AND SUBSIDIARIES VALUATION AND QUALIFYING ACCOUNTS FOR THE YEARS ENDED DECEMBER 31, 2000, 2001 AND 2002 (in thousands)