

SINCLAIR BROADCAST GROUP INC

Form 10-K

March 04, 2009

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

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

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2008

OR

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

FOR THE TRANSITION PERIOD FROM TO .

COMMISSION FILE NUMBER: 000-26076

SINCLAIR BROADCAST GROUP, INC.

(Exact name of Registrant as specified in its charter)

OR

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Maryland
(State or other jurisdiction of
incorporation or organization)

52-1494660
(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:

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

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

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

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

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

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

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

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

Based on the closing sales price of \$7.60 per share as of June 30, 2008, the aggregate market value of the voting and non-voting common equity of the Registrant held by non-affiliates was approximately \$398.8 million.

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

	Title of each class	Number of shares outstanding as of February 26, 2009
Class A Common Stock		46,376,653
Class B Common Stock		34,453,859

Documents Incorporated by Reference - Portions of our definitive Proxy Statement relating to our 2009 Annual Meeting of Shareholders are incorporated by reference into Part III of this Form 10-K. We anticipate that our Proxy Statement will be filed with the Securities and Exchange Commission within 120 days after the end of our fiscal year ended December 31, 2008.

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FORWARD-LOOKING STATEMENTS

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

General risks

- the impact of changes in national and regional economies including the possibility of an extended recession and freezing of the credit markets;
- the activities of our competitors;
- terrorist acts of violence or war and other geopolitical events;

Industry risks

- the business conditions of our advertisers particularly in the automotive industry;
- competition with other broadcast television stations, radio stations, multi-channel video programming distributors (MVPDs) and internet and broadband content providers serving in the same markets;
- labor disputes and legislation and other union activity;
- availability and cost of programming;
- the effects of governmental regulation of broadcasting or changes in those regulations and court actions interpreting those regulations, including ownership regulations, indecency regulations, retransmission regulations and political or other advertising restrictions and regulations;
- the continued viability of networks and syndicators that provide us with programming content;
- the June 12, 2009 mandatory transition from analog to digital over-the-air broadcasting including the impact the transition will have on television ratings;
- the broadcasting community's ability to develop a viable mobile digital television strategy and platform and the consumers appetite for mobile television;
- competition related to the potential implementation of regulations requiring MVPDs to carry low power television stations programming;
- the operation of low power devices in the broadcast spectrum could cause harmful interference to our broadcast signals;
- our ability to negotiate and maintain music license agreements with favorable terms;

Risks specific to us

- our ability to service and refinance our outstanding debt including our ability to address put option exercises in May 2010 and January 2011 related to our 3.0% Notes and 4.875% Notes, respectively;
- the effectiveness of our management;
- our ability to attract and maintain local and national advertising;
- our ability to successfully renegotiate retransmission consent agreements;
- our ability to renew our FCC licenses;

FORWARD-LOOKING STATEMENTS

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- our ability to maintain our affiliation agreements with our networks, and at renewal such as our ABC agreement which expires December 31, 2009, to successfully negotiate these agreements with favorable terms;
- the popularity of syndicated programming we purchase and network programming that we air;
- the strength of ratings for our local news broadcasts including our news sharing arrangements;
- changes in the makeup of the population in the areas where our stations are located;
- the success of our multi-channel broadcasting initiatives strategy execution including mobile digital television;
- the results of prior year tax audits by taxing authorities; and
- our ability to identify and consummate investments in attractive non-television assets and to achieve anticipated returns on our investments.

Other matters set forth in this report and other reports filed with the Securities and Exchange Commission, including the *Risk Factors* set forth in Item 1A of this report may also cause actual results in the future to differ materially from those described in the forward-looking statements. Any forward-looking statement speaks only as of the date on which it is made and we undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. In light of these risks, uncertainties and assumptions, the forward-looking statements discussed in this report might not occur.

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PART I

ITEM 1. BUSINESS

We are a diversified television broadcasting company that owns or provides certain programming, operating or sales services to more television stations than most other commercial broadcasting groups in the United States. We currently own, provide programming and operating services pursuant to local marketing agreements (LMAs) or provide (or are provided) sales services pursuant to outsourcing agreements to 58 television stations in 35 markets. For the purpose of this report, these 58 stations are referred to as our stations.

We have a mid-size market focus and 43 of our 58 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: FOX (20 stations); MyNetworkTV (17 stations); ABC (9 stations); The CW (9 stations); CBS (2 stations) and NBC (1 station). Refer to our *Markets and Stations* table later in this section for more information.

We broadcast free over-the-air programming to television viewing audiences in the communities we serve through our local television stations. The programming that we provide consists of network provided programs, news produced locally, local sporting events and syndicated entertainment programs. We provide network produced programming, which we broadcast pursuant to our agreements with the network with which the stations are affiliated. We produce news at 18 stations in 12 markets, including two stations where we produce news pursuant to a local news sharing arrangement with a competitive station in that market. We have 14 stations which have local news sharing arrangements with a competitive station in that market that produces the news aired on our station. We provide live local sporting events on many of our stations by acquiring the local television broadcast rights for these events. Additionally, we purchase and barter for popular syndicated programming from third parties. See *Operating Strategy* later in this Item for more information regarding the programming we provide.

Our primary source of revenue is the sale of commercial inventory on our television stations to our advertising customers. Our objective is to meet the needs of our advertising customers by delivering significant audiences in key demographics. Our strategy is to achieve this objective by providing quality local news programming and popular network and syndicated programs to our viewing audience. We attract our national television advertisers through a single national marketing representation firm which has offices in New York City, Los Angeles, Chicago and Atlanta. Our local television advertisers are attracted through the use of a local sales force at each of our television stations, which is comprised of approximately 350 account executives company-wide.

Our operating results are subject to seasonal fluctuations. The second and fourth quarter operating results are typically higher than the first and third quarters due to increased advertising revenues. The second quarter operating results are typically higher than the first and third quarters primarily because advertising expenditures are increased in anticipation of consumer spending on summer related items such as home improvements, lawn care and travel plans. The fourth quarter operating results are typically higher than first and third quarters due to anticipation of holiday season spending by consumers. Due to the recent economic turmoil, our seasonal fluctuations may stray from the norm. Our operating results are usually subject to cyclical fluctuations from political advertising. In the past, political spending has been significantly higher in the even-number years due to the cyclical nature of political advertising. In addition, every four years, political spending is elevated further due to the advertising revenue preceding the presidential election. Because of this cyclical nature, there has been a significant difference in our operating results when comparing even-numbered years performance to the odd-numbered years performance. We believe political advertising will continue to be a strong advertising category in our industry.

Over the last few years, we have been earning revenue from our retransmission consent agreements through payments from the MVPDs in our markets. The MVPDs are local cable companies, satellite television and local telecommunication video providers. The revenues primarily represent payments from the MVPDs for access to our signal so they may rebroadcast directly to and charge their subscribers. We have seen this revenue category grow significantly since 2006 as we successfully negotiated favorable payment terms in our retransmission consent agreements with the MVPDs. Certain agreements expired in 2008 and successful contractual negotiations were reached. We expect to continue to generate revenues from retransmission consent agreements at terms as favorable as or more favorable than our existing agreements upon the expiration of those agreements. Many of our retransmission consent agreements include automatic annual fee escalators. We may not continue to grow these revenues at the current growth rate since most of the MVPDs that we conduct business with are under contract. Additionally, as mobile television develops, we may be able to generate additional revenue streams through agreements with portable device service providers.

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We are currently working on various potential uses of our digital spectrum. Mobile digital television holds tremendous potential for the television broadcasting industry. We are a member of the Open Mobile Video Coalition (the Coalition), which is a voluntary association of television broadcasters whose mission is to accelerate the development of mobile digital broadcast television. The Coalition has been working within the Advanced Television Systems Committee (ATSC) to develop a mobile broadcasting system that will allow cell phones, laptop computers, video screens in vehicles, portable video players and other portable devices to receive our digital signals. Broadcasters are working with the Coalition to understand and develop an innovative and viable business model. We expect mobile television to increase our viewership and generate additional revenues; however, we are uncertain when this will occur. According to a January 2009 article in TV Newsday,

Advertising studies show an incremental 10 percent viewing time is reasonable. So using existing figures that would be roughly \$2 billion per year on broadcast stations. Over-the-air television broadcasting in the U.S. was scheduled to complete the transition from high power analog transmissions to digital transmissions on February 17, 2009; however, Congress extended this deadline to June 12, 2009. In spite of this extension, Congress allowed broadcasters to petition the Federal Communications Commission (the FCC or Commission) for approval to maintain the original February 17, 2009 deadline. We obtained approval from the FCC for 46 stations to maintain the February 17, 2009 transition and successfully completed the transition accordingly with minimum viewing impact. The remaining 12 stations are expected to transition by the June 12, 2009 deadline.

We believe 2009 will prove to be a difficult year for television broadcasting due to the severe economic recession, the lack of political advertising, the continued deterioration of the automotive industry, which historically has been our largest advertising category and the stagnant growth of advertising spending in general. According to a BIA Advisory Services Report from December 2008, Political advertising couldn't prevent the television industry from posting -7 percent growth in 2008. This year's negative results reflect not only the economy but stagnant ad spending that has remained at \$43 billion since 2000... While our 2008 operating results including market share fared better than the industry's overall projected results, we were and continue to be significantly impacted by the weak economic conditions.

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

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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)	Affiliation (c)	Station Rank in Market (d)	Expiration Date of FCC License
Tampa, Florida	13	WTTA	LMA (e)	MNT	6 of 8	2/01/13
Minneapolis/St. Paul, Minnesota	15	WUCW	O&O	CW	6 of 7	4/01/06(f)
St. Louis, Missouri	21	KDNL	O&O	ABC	4 of 8	2/01/14
Pittsburgh, Pennsylvania	23	WPGH	O&O	FOX	4 of 9	8/01/15
		WPMY	O&O	MNT	6 of 9	8/01/07(g)
Baltimore, Maryland	26	WBFF	O&O	FOX	4 of 6	10/01/04(f)
		WNUV	LMA (h)	CW	5 of 6	10/01/12
Raleigh/Durham, North Carolina	27	WLFL	O&O	CW	5 of 7	12/01/04(f)
		WRDC	O&O	MNT	6 of 7	12/01/04(f)
Nashville, Tennessee	29	WZTV	O&O	FOX	4 of 8	8/01/13
		WUXP	O&O	MNT	5 of 8	8/01/13
		WNAB	OSA (i)	CW	6 of 8	8/01/13(i)
Columbus, Ohio	32	WSYX	O&O	ABC	3 of 7	10/01/13
		WTTE	LMA (h)	FOX	4 of 7	10/01/05(f)
Cincinnati, Ohio	34	WSTR	O&O	MNT	5 of 7	10/01/13
Milwaukee, Wisconsin	35	WCGV	O&O	MNT	5 of 10	12/01/05(f)
		WVTV	O&O	CW	6 of 10	12/01/13
Asheville, North Carolina/ Greenville/Spartanburg/ Anderson, South Carolina	36	WLOS	O&O	ABC	3 of 7	12/01/04(f)
		WMYA	LMA (h)	MNT	5 of 7	12/01/04(f)
San Antonio, Texas	37	KABB	O&O	FOX	3 of 7	8/01/14
		KMYS	O&O	MNT	5 of 7	8/01/14
Birmingham, Alabama	40	WTTO	O&O	CW	5 of 8	4/01/05(f)
		WABM	O&O	MNT	6 of 8	4/01/13
		WDBB	LMA	CW	5 of 8(j)	4/01/13

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Las Vegas, Nevada	42	KVMY	O&O	MNT	5 of 7	10/01/14
		KVCW	O&O	CW	6 of 7	10/01/14
Norfolk, Virginia	43	WTVZ	O&O	MNT	6 of 7	10/01/12
Oklahoma City, Oklahoma	45	KOKH	O&O	FOX	4 of 8	6/01/14
		KOCB	O&O	CW	5 of 8	6/01/14
Greensboro/Winston-Salem/ Highpoint, North Carolina	46	WXLV	O&O	ABC	4 of 7	12/01/04 _(f)
		WMYV	O&O	MNT	5 of 7	12/01/04 _(f)
Buffalo, New York	51	WUTV	O&O	FOX	4 of 8	6/01/15
		WNYO	O&O	MNT	5 of 8	6/01/15
Richmond, Virginia	58	WRLH	O&O	FOX	4 of 6	10/01/12