

SINCLAIR BROADCAST GROUP INC

Form 10-Q

November 08, 2016

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q  
(Mark One)

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

For the quarterly period ended September 30, 2016

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

COMMISSION FILE NUMBER: 000-26076

SINCLAIR BROADCAST GROUP, INC.  
(Exact name of Registrant as specified in its charter)

Maryland  
(State or other jurisdiction of  
Incorporation or organization) 52-1494660  
(I.R.S. Employer Identification No.)

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

(410) 568-1500  
(Registrant's telephone number, including area code)

None  
(Former name, former address and former fiscal year, if changed since last report)

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

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required

to submit and post such file).

Yes  No

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

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

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

Yes  No

Indicate the number of share outstanding of each of the issuer’s classes of common stock as of the latest practicable date.

| Title of each class  | Number of shares outstanding as of<br>November 4, 2016 |
|----------------------|--|
| Class A Common Stock | 64,706,034   |
| Class B Common Stock | 25,928,357   |

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SINCLAIR BROADCAST GROUP, INC.

FORM 10-Q  
FOR THE QUARTER ENDED SEPTEMBER 30, 2016

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share data) (Unaudited)

|  | As of<br>September 30,<br>2016 | As of<br>December 31,<br>2015 |
|--|--------------------------------|-------------------------------|
| <b>ASSETS</b>  |                                |                               |
| <b>CURRENT ASSETS:</b>   |                                |                               |
| Cash and cash equivalents  | \$ 104,545                     | \$ 149,972                    |
| Accounts receivable, net of allowance for doubtful accounts of \$2,838 and \$4,495, respectively   | 519,662                        | 424,608                       |
| Current portion of program contract costs  | 110,228                        | 91,466                        |
| Income taxes receivable  | 9,234                          | 823                           |
| Prepaid expenses and other current assets  | 37,909                         | 26,903                        |
| Deferred barter costs  | 8,512                          | 7,991                         |
| Total current assets   | 790,090                        | 701,763                       |
| PROGRAM CONTRACT COSTS, less current portion   | 12,245                         | 18,996                        |
| PROPERTY AND EQUIPMENT, net  | 713,088                        | 717,137                       |
| RESTRICTED CASH  | —                              | 3,725                         |
| GOODWILL   | 1,989,578                      | 1,931,093                     |
| INDEFINITE-LIVED INTANGIBLE ASSETS   | 153,125                        | 132,465                       |
| DEFINITE-LIVED INTANGIBLE ASSETS, net  | 1,983,326                      | 1,751,570                     |
| OTHER ASSETS   | 224,736                        | 175,566                       |
| Total assets (a)   | \$ 5,866,188                   | \$ 5,432,315                  |
| <b>LIABILITIES AND EQUITY (DEFICIT)</b>  |                                |                               |
| <b>CURRENT LIABILITIES:</b>  |                                |                               |
| Accounts payable and accrued liabilities   | \$ 291,213                     | \$ 251,313                    |
| Current portion of notes payable, capital leases and commercial bank financing   | 165,238                        | 164,184                       |
| Current portion of notes and capital leases payable to affiliates  | 3,599                          | 3,166                         |
| Current portion of program contracts payable   | 131,553                        | 108,260                       |
| Deferred barter revenues   | 8,142                          | 8,080                         |
| Total current liabilities  | 599,745                        | 535,003                       |
| <b>LONG-TERM LIABILITIES:</b>  |                                |                               |
| Notes payable, capital leases and commercial bank financing, less current portion  | 4,022,437                      | 3,669,160                     |
| Notes payable and capital leases to affiliates, less current portion   | 15,036                         | 17,850                        |
| Program contracts payable, less current portion  | 57,724                         | 56,921                        |
| Deferred tax liabilities   | 612,961                        | 585,072                       |
| Other long-term liabilities  | 71,619                         | 68,631                        |
| Total liabilities (a)  | 5,379,522                      | 4,932,637                     |
| <b>COMMITMENTS AND CONTINGENCIES (See Note 4)</b>  |                                |                               |
| <b>EQUITY:</b>   |                                |                               |
| <b>SINCLAIR BROADCAST GROUP SHAREHOLDERS' EQUITY:</b>  |                                |                               |
| Class A Common Stock, \$.01 par value, 500,000,000 shares authorized, 65,546,601 and 68,792,483 shares issued and outstanding, respectively  | 655                            | 688                           |
| Class B Common Stock, \$.01 par value, 140,000,000 shares authorized, 25,928,357 and 25,928,357 shares issued and outstanding, respectively, convertible into Class A Common Stock | 259                            | 259                           |
| Additional paid-in capital   | 876,895                        | 962,726                       |
| Accumulated deficit  | (360,459)                      | (437,029)                     |

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|   |              |              |   |
|---|--------------|--------------|---|
| Accumulated other comprehensive loss                | (834         | ) (834       | ) |
| Total Sinclair Broadcast Group shareholders' equity | 516,516      | 525,810      |   |
| Noncontrolling interests                            | (29,850      | ) (26,132    | ) |
| Total equity  | 486,666      | 499,678      |   |
| Total liabilities and equity                        | \$ 5,866,188 | \$ 5,432,315 |   |

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

Our consolidated total assets as of September 30, 2016 and December 31, 2015 include total assets of variable interest entities (VIEs) of \$151.1 million and \$152.4 million, respectively, which can only be used to settle the (a) obligations of the VIEs. Our consolidated total liabilities as of September 30, 2016 and December 31, 2015 include total liabilities of the VIEs of \$41.1 million and \$35.6 million, respectively, for which the creditors of the VIEs have no recourse to us. See Note 1. Nature of Operations and Summary of Significant Accounting Policies.

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SINCLAIR BROADCAST GROUP, INC.  
CONSOLIDATED STATEMENTS OF OPERATIONS  
(in thousands, except per share data) (Unaudited)

|  | Three Months Ended<br>September 30, |           | Nine Months Ended<br>September 30, |             |
|--|-------------------------------------|-----------|------------------------------------|-------------|
|  | 2016                                | 2015      | 2016                               | 2015        |
| <b>REVENUES:</b>   |                                     |           |                                    |             |
| Media revenues   | \$635,269                           | \$498,167 | \$1,772,860                        | \$1,466,088 |
| Revenues realized from station barter arrangements   | 32,061                              | 28,618    | 92,574                             | 79,950      |
| Other non-media revenues   | 26,505                              | 21,619    | 73,824                             | 61,308      |
| Total revenues   | 693,835                             | 548,404   | 1,939,258                          | 1,607,346   |
| <b>OPERATING EXPENSES:</b>   |                                     |           |                                    |             |
| Media production expenses  | 242,880                             | 187,173   | 702,377                            | 540,554     |
| Media selling, general and administrative expenses   | 126,672                             | 105,622   | 370,169                            | 311,088     |
| Expenses realized from barter arrangements   | 27,181                              | 23,105    | 79,365                             | 66,898      |
| Amortization of program contract costs and net realizable value adjustments                  | 32,441                              | 29,841    | 96,722                             | 90,014      |
| Other non-media expenses   | 20,488                              | 16,555    | 57,946                             | 46,988      |
| Depreciation of property and equipment   | 25,886                              | 25,476    | 74,330                             | 75,938      |
| Corporate general and administrative expenses  | 19,052                              | 16,464    | 54,672                             | 46,685      |
| Amortization of definite-lived intangible and other assets                                   | 47,807                              | 40,014    | 137,197                            | 119,439     |
| Research and development expenses  | 745                                 | 4,803     | 3,055                              | 11,555      |
| Gain on asset dispositions   | (3,311)                             | (255)     | (5,982)                            | (306)       |
| Total operating expenses   | 539,841                             | 448,798   | 1,569,851                          | 1,308,853   |
| Operating income   | 153,994                             | 99,606    | 369,407                            | 298,493     |
| <b>OTHER INCOME (EXPENSE):</b>   |                                     |           |                                    |             |
| Interest expense and amortization of debt discount and deferred financing costs              | (53,488)                            | (48,566)  | (156,819)                          | (142,878)   |
| Loss from extinguishment of debt   | (23,699)                            | —         | (23,699)                           | —           |
| Income from equity investments   | 1,423                               | 252       | 2,789                              | 5,405       |
| Other income (expense)   | 789                                 | (48)      | 2,355                              | 1,220       |
| Total other expense, net   | (74,975)                            | (48,362)  | (175,374)                          | (136,253)   |
| Income before income taxes   | 79,019                              | 51,244    | 194,033                            | 162,240     |
| <b>INCOME TAX PROVISION</b>  | (26,986)                            | (7,210)   | (65,771)                           | (46,971)    |
| <b>NET INCOME</b>  | 52,033                              | 44,034    | 128,262                            | 115,269     |
| Net income attributable to the noncontrolling interests                                      | (1,188)                             | (779)     | (3,858)                            | (1,945)     |
| <b>NET INCOME ATTRIBUTABLE TO SINCLAIR BROADCAST GROUP</b>                                   | \$50,845                            | \$43,255  | \$124,404                          | \$113,324   |
| Dividends declared per share   | \$0.180                             | \$0.165   | \$0.525                            | \$0.345     |
| <b>BASIC AND DILUTED EARNINGS PER COMMON SHARE ATTRIBUTABLE TO SINCLAIR BROADCAST GROUP:</b> |                                     |           |                                    |             |
| Basic earnings per share   | \$0.54                              | \$0.46    | \$1.32                             | \$1.19      |
| Diluted earnings per share   | \$0.54                              | \$0.45    | \$1.30                             | \$1.18      |
| Weighted average common shares outstanding   | 93,948                              | 95,002    | 94,595                             | 95,146      |
| Weighted average common and common equivalent shares outstanding                             | 94,766                              | 95,692    | 95,465                             | 95,837      |

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





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SINCLAIR BROADCAST GROUP, INC.  
 CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
 (in thousands) (Unaudited)

|   | Three Months Ended |          | Nine Months Ended |           |
|---|--------------------|----------|-------------------|-----------|
|   | September 30,      |          | September 30,     |           |
|   | 2016               | 2015     | 2016              | 2015      |
| Net income  | \$52,033           | \$44,034 | \$128,262         | \$115,269 |
| Amortization of net periodic pension benefit costs, net of taxes  | —                  | 10       | —                 | 178       |
| Comprehensive income  | 52,033             | 44,044   | 128,262           | 115,447   |
| Comprehensive income attributable to the noncontrolling interests | (1,188 )           | (779 )   | (3,858 )          | (1,945 )  |
| Comprehensive income attributable to Sinclair Broadcast Group     | \$50,845           | \$43,265 | \$124,404         | \$113,502 |

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

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SINCLAIR BROADCAST GROUP, INC.  
CONSOLIDATED STATEMENT OF EQUITY (DEFICIT)  
(in thousands) (Unaudited)

|   | Sinclair Broadcast Group Shareholders |        |                                   |        |                                  | Accumulated<br>Deficit | Accumulated<br>Other<br>Comprehensive<br>Loss | Noncontrolling<br>Interests | Total Equity<br>(Deficit) |
|---|---------------------------------------|--------|-----------------------------------|--------|----------------------------------|------------------------|---|-----------------------------|---------------------------|
|   | Class A<br>Common Stock<br>Shares     | Values | Class B<br>Common Stock<br>Shares | Values | Additional<br>Paid-In<br>Capital |                        |   |                             |                           |
| BALANCE,<br>December 31,<br>2014  | 69,578,899                            | \$ 696 | 25,928,357                        | \$ 259 | \$ 979,202                       | \$(545,820)            | \$(6,455)                                     | \$(22,539)                  | \$ 405,343                |
| Dividends<br>declared and paid<br>on Class A and<br>Class B Common<br>Stock | —                                     | —      | —                                 | —      | —                                | (47,104)               | —   | —                           | (47,104)                  |
| Repurchases of<br>Class A Common<br>Stock                                   | (1,107,887)                           | (11)   | —                                 | —      | (28,812)                         | —                      | —   | —                           | (28,823)                  |
| Class A Common<br>Stock issued<br>pursuant to<br>employee benefit<br>plans  | 291,911                               | 3      | —                                 | —      | 10,616                           | —                      | —   | —                           | 10,619                    |
| Tax benefit on<br>share based<br>awards                                     | —                                     | —      | —                                 | —      | 703                              | —                      | —   | —                           | 703                       |
| Distributions to<br>noncontrolling<br>interests, net                        | —                                     | —      | —                                 | —      | —                                | —                      | —   | (6,655)                     | (6,655)                   |
| Other<br>comprehensive<br>income  | —                                     | —      | —                                 | —      | —                                | —                      | 178   | —                           | 178                       |
| Issuance of<br>subsidiary stock<br>awards                                   | —                                     | —      | —                                 | —      | —                                | —                      | —   | 1,731                       | 1,731                     |
| Net income  | —                                     | —      | —                                 | —      | —                                | 113,324                | —   | 1,945                       | 115,269                   |
| BALANCE,<br>September 30,<br>2015   | 68,762,923                            | \$ 688 | 25,928,357                        | \$ 259 | \$ 961,709                       | \$(479,600)            | \$(6,277)                                     | \$(25,518)                  | \$ 451,261                |

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

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SINCLAIR BROADCAST GROUP, INC.  
CONSOLIDATED STATEMENT OF EQUITY (DEFICIT)  
(In thousands) (Unaudited)

|   | Sinclair Broadcast Group Shareholders |        |                                   |        | Additional<br>Paid-In<br>Capital | Accumulated<br>Deficit | Accumulated<br>Other<br>Comprehensive<br>Loss | Noncontrolling<br>Interests | Total Equity<br>(Deficit) |
|---|---------------------------------------|--------|-----------------------------------|--------|----------------------------------|------------------------|---|-----------------------------|---------------------------|
|   | Class A<br>Common Stock<br>Shares     | Values | Class B<br>Common Stock<br>Shares | Values |                                  |                        |   |                             |                           |
| BALANCE,<br>December 31,<br>2015  | 68,792,483                            | \$ 688 | 25,928,357                        | \$ 259 | \$962,726                        | \$(437,029 )           | \$( 834 )                                     | \$(26,132 )                 | \$499,678                 |
| Cumulative effect<br>of adoption of<br>new accounting<br>standard (see<br>Note 1) | —                                     | —      | —                                 | —      | 431                              | 1,833                  | —   | —                           | 2,264                     |
| Dividends<br>declared and paid<br>on Class A and<br>Class B Common<br>Stock       | —                                     | —      | —                                 | —      | —                                | (49,667 )              | —   | —                           | (49,667 )                 |
| Repurchases of<br>Class A Common<br>Stock   | (3,610,201 )                          | (37 )  | —                                 | —      | (101,127 )                       | —                      | —   | —                           | (101,164 )                |
| Class A Common<br>Stock issued<br>pursuant to<br>employee benefit<br>plans        | 364,319                               | 4      | —                                 | —      | 14,865                           | —                      | —   | —                           | 14,869                    |
| Distributions to<br>noncontrolling<br>interests, net                              | —                                     | —      | —                                 | —      | —                                | —                      | —   | (8,363 )                    | (8,363 )                  |
| Issuance of<br>subsidiary stock<br>awards   | —                                     | —      | —                                 | —      | —                                | —                      | —   | 787                         | 787                       |
| Net income  | —                                     | —      | —                                 | —      | —                                | 124,404                | —   | 3,858                       | 128,262                   |
| BALANCE,<br>September 30,<br>2016   | 65,546,601                            | \$ 655 | 25,928,357                        | \$ 259 | \$876,895                        | \$(360,459 )           | \$( 834 )                                     | \$(29,850 )                 | \$486,666                 |

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

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SINCLAIR BROADCAST GROUP, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(in thousands) (Unaudited)

|  | Nine Months Ended<br>September 30, |           |
|--|------------------------------------|-----------|
|  | 2016                               | 2015      |
| CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES:                                  |                                    |           |
| Net income   | \$128,262                          | \$115,269 |
| Adjustments to reconcile net income to net cash flows from operating activities: |                                    |           |
| Depreciation of property and equipment   | 74,330                             |           |