

SINCLAIR BROADCAST GROUP INC  
Form 10-Q/A  
September 01, 2006

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

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**FORM 10-Q/A**  
**(Amendment No. 1)**

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(Mark One)

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

For the quarterly period ended March 31, 2006  
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)

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**Maryland**

(State or other jurisdiction of Incorporation or organization)

**52-1494660**

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

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10706 Beaver Dam Road

Hunt Valley, Maryland 21030

(Address of principal executive offices)

(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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer

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

Yes  No

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

<b>Title of each class</b>	<b>Number of shares outstanding as of May 3, 2006</b>
Class A Common Stock	47,387,792
Class B Common Stock	38,348,331

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SINCLAIR BROADCAST GROUP, INC.

FORM 10-Q  
FOR THE QUARTER ENDED MARCH 31, 2006

TABLE OF CONTENTS

**PART I. FINANCIAL INFORMATION**

**ITEM 1. FINANCIAL STATEMENTS**

**CONSOLIDATED BALANCE SHEETS**

**CONSOLIDATED STATEMENTS OF OPERATIONS**

**CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

**ITEM 4. CONTROLS AND PROCEDURES**

**PART II. OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

**ITEM 1A. RISK FACTORS**

**ITEM 6. EXHIBITS**

**SIGNATURE**

**EXHIBIT INDEX**

**EXPLANATORY NOTE**

We are filing this Amendment No. 1 to our Quarterly Report on Form 10-Q for the quarter ended March 31, 2006, as originally filed with the SEC on May 10, 2006, to restate our financial statements and corresponding financial information for the three months ended March 31, 2006.

We are restating the financial statements and corresponding financial information due to an error made in the accounting treatment for the exchange of our Series D Convertible Exchangeable Preferred Stock (the Preferred Stock) into 6% Convertible Debentures, due 2012 (the Debentures) in June 2005. In previously reported consolidated financial statements, we accounted for this transaction as an exchange and our auditors concurred with this treatment. We now believe, and our auditors concur, that the most appropriate accounting guidance to apply to this exchange is EITF Topic D-42, *The Effect of the Calculation of Earnings per Share for the Redemption or Induced Conversion of Preferred Stock*, and that the exchange should have been treated as a redemption for accounting purposes. Accordingly, we should have recorded the Debentures at fair value upon issuance and the excess of the carrying amount of the Preferred Stock over the fair value of the Debentures should have been added to net earnings to arrive at net earnings available to common shareholders. The difference in the carrying amount of the Preferred Stock and the fair value of the Debentures should have been recorded as a discount on the Debentures and amortized over the life of the Debentures using the effective interest method. Additionally, in calculating and accounting for the carrying amount of the Preferred Stock, all of the issuance costs of the Preferred Stock should have been charged directly to accumulated deficit rather than a portion of these costs recorded as unamortized costs relating to securities issuances and amortized over the remaining term of the Debentures. For additional information regarding our accounting treatment, see *Note 1. Summary of Significant Accounting Policies*, in the Notes to our Unaudited Consolidated Financial Statements.

In addition, we have revised *Item 4. Controls and Procedures* to discuss the facts and circumstances surrounding the restatement and to disclose the effect of the restatement on the adequacy of our disclosure controls and procedures as of March 31, 2006.

This Amendment No. 1 continues to speak as of the date of the original Form 10-Q for the three months ended March 31, 2006 and we have not updated or amended the disclosures contained herein to reflect events that have occurred since the filing of the original Form 10-Q, or modified or updated those disclosures in any way other than as described in the preceding paragraphs. Accordingly, this Amendment No. 1 should be read in conjunction with our filings made with the SEC subsequent to the filing of the original Form 10-Q on May 10, 2006.

**PART I. FINANCIAL INFORMATION**  
**ITEM 1. FINANCIAL STATEMENTS**

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

ASSETS	As of March 31, 2006 (Unaudited) (Restated - See Note 1)	As of December 31, 2005 (Restated - See Note 1)
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 7,753	\$ 9,655
Accounts receivable, net of allowance for doubtful accounts of \$4,225 and \$4,596, respectively	118,176	127,913
Current portion of program contract costs	52,318	51,528
Income taxes receivable	2,072	
Prepaid expenses and other current assets	7,594	17,616
Deferred barter costs	2,694	2,027
Assets held for sale		3,678
Deferred tax assets	9,446	10,591
Total current assets	200,053	223,008
PROGRAM CONTRACT COSTS, less current portion	46,042	36,494
LOANS TO AFFILIATES	12	14
PROPERTY AND EQUIPMENT, net	295,798	304,355
GOODWILL, net	1,040,234	1,040,234
BROADCAST LICENSES, net	409,620	409,620
DEFINITE-LIVED INTANGIBLE ASSETS, net	222,039	224,673
OTHER ASSETS	39,649	44,907
Total assets	\$ 2,253,447	\$ 2,283,305
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 4,677	\$ 3,799
Income taxes payable		2,662
Accrued liabilities	67,367	84,623
Current portion notes payable, capital leases and commercial bank financing	33,700	33,802
Current portion of notes and capital leases payable to affiliates	3,091	4,135
Current portion of program contracts payable	77,064	88,510
Deferred barter revenues	3,129	2,501
Deferred gain on sale of broadcast assets		3,249
Liabilities held for sale		1,407
Total current liabilities	189,028	224,688
<b>LONG-TERM LIABILITIES:</b>		
Notes payable, capital leases and commercial bank financing, less current portion	1,381,103	1,397,649
Notes payable and capital leases to affiliates, less current portion	15,606	15,152
Program contracts payable, less current portion	79,589	65,239
Deferred tax liabilities	285,037	277,451
Other long-term liabilities	49,384	52,438
Total liabilities	1,999,747	2,032,617
MINORITY INTEREST IN CONSOLIDATED ENTITIES	766	966
<b>SHAREHOLDERS EQUITY:</b>		

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Class A Common Stock, \$.01 par value, 500,000,000 shares authorized, 47,329,176 and 47,122,407 shares issued and outstanding, respectively	473	471
Class B Common Stock, \$.01 par value, 140,000,000 shares authorized, 38,348,331 shares issued and outstanding, convertible into Class A Common Stock	383	383
Additional paid-in capital	594,941	593,259
Accumulated deficit	(342,863 )	(344,391 )
Total shareholders' equity	252,934	249,722
Total liabilities and shareholders' equity	\$ 2,253,447	\$ 2,283,305

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

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

	<b>Three Months Ended March 31,</b>	
	<b>2006</b>	<b>2005</b>
	<b>(Restated - See Note 1)</b>	
<b>REVENUES:</b>		
Station broadcast revenues, net of agency commissions	\$ 147,925	\$ 144,428
Revenues realized from station barter arrangements	11,805	14,511
Other operating divisions revenues	3,737	4,921
Total revenues	163,467	163,860
<b>OPERATING EXPENSES:</b>		
Station production expenses	38,109	37,924
Station selling, general and administrative expenses	34,146	34,777
Expenses recognized from station barter arrangements	10,825	13,405
Amortization of program contract costs and net realizable value adjustments	18,623	17,119
Other operating divisions expenses	3,989	5,053
Depreciation of property and equipment	12,288	13,026
Corporate general and administrative expenses	5,806	5,453
Amortization of definite-lived intangible assets and other assets	4,325	4,527
Total operating expenses	128,111	131,284
Operating income	35,356	32,576
<b>OTHER INCOME (EXPENSE):</b>		
Interest expense and amortization of debt discount and deferred financing costs	(29,710 )	(28,971 )
Interest income	46	121
Loss from sale of assets	(287 )	(11 )
Loss from extinguishment of debt	(623 )	
Unrealized gain from derivative instruments	2,881	8,899
Income from equity and cost investees	6,099	1,179
Other (expense) income, net	(125 )	76
Total other expense	(21,719 )	(18,707 )
Income from continuing operations before income taxes	13,637	13,869
<b>INCOME TAX PROVISION</b>		
Income from continuing operations	(6,561 )	(5,421 )
	7,076	8,448
<b>DISCONTINUED OPERATIONS:</b>		
Income from discontinued operations, net of related income tax benefit of \$1,114 and tax provision of \$1,519, respectively	1,168	2,861
Gain from discontinued operations, net of related income tax provision of \$885	1,774	
NET INCOME	10,018	11,309
PREFERRED STOCK DIVIDENDS		(2,502 )
NET INCOME AVAILABLE TO COMMON SHAREHOLDERS	\$ 10,018	\$ 8,807
<b>BASIC AND DILUTED EARNINGS PER COMMON SHARE:</b>		
Earnings per common share from continuing operations	\$ 0.08	\$ 0.07
Earnings per common share from discontinued operations	\$ 0.03	\$ 0.03
Earnings per common share	\$ 0.11	\$ 0.10
Weighted average common shares outstanding	85,533	85,235
Weighted average common and common equivalent shares outstanding	85,535	85,236
Dividends declared per common share	\$ 0.10	\$ 0.05

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





**SINCLAIR BROADCAST GROUP, INC.**  
**CONSOLIDATED STATEMENT OF SHAREHOLDERS EQUITY**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2006**

(In thousands) (Unaudited)

	Class A Common Stock	Class B Common Stock	Additional Paid-In Capital	Accumulated Deficit	Total Shareholders Equity
BALANCE, December 31, 2005 (a)	\$ 471	\$ 383	\$ 593,259	\$ (344,391 )	\$ 249,722
Dividends declared on Class A and Class B Common Stock				(8,490 )	(8,490 )
Class A Common Stock issued pursuant to employee benefit plans	2		1,682		1,684
Net income (a)				10,018	10,018
BALANCE, March 31, 2006 (a)	\$ 473	\$ 383	\$ 594,941	\$ (342,863 )	\$ 252,934

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

(a) Amounts for 2005 and the quarterly period ended March 31, 2006 have been restated. See *Note 1. Summary of Significant Accounting Policies*, in the Notes to our Unaudited Consolidated Financial Statements, for additional information.

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

	<b>Three Months Ended March 31,</b>	
	<b>2006</b>	<b>2005</b>
	<b>(Restated - See Note 1)</b>	
<b>CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES:</b>		
Net income	\$ 10,018	\$ 11,309
Adjustments to reconcile net income to net cash flows from operating activities:		
Amortization of debt discount, net of (debt premium)	480	(270)
Depreciation of property and equipment	12,288	13,189
Recognition of deferred revenue	(1,235)	(1,235)
Accretion of capital leases	152	175
Income from equity and cost investees	(6,099)	(1,179)
Loss on sale of property	287	11
Gain on sale of broadcast assets related to discontinued operations	(2,659)	
Unrealized gain from derivative instruments	(2,881)	(8,899)
Amortization of definite-lived intangible assets and other assets	4,325	4,543
Amortization of program contract costs and net realizable value adjustments	18,623	17,350
Amortization of deferred financing costs	661	654
Stock-based compensation	499	233
Loss on extinguishment of debt, non-cash portion	989	
Amortization of derivative instruments	134	134
Deferred tax provision related to operations	8,018	5,297
Deferred tax (benefit) provision related to discontinued operations	(1,177)	1,659
Net effect of change in deferred barter revenues and deferred barter costs	(39)	(229)
Changes in assets and liabilities, net of effects of acquisitions and dispositions:		
Decrease in accounts receivable, net	9,737	11,769
Increase in taxes receivable	(2,072)	(64)
Decrease in prepaid expenses and other current assets	10,034	7,629
Decrease (increase) in other long-term assets	177	(103)
Decrease in accounts payable and accrued liabilities	(13,863)	(10,101)
Decrease in income taxes payable	(772)	
Decrease in other long-term liabilities	(1,851)	(788)
Dividends and distributions from equity and cost investees	6,000	
Payments on program contracts payable	(26,289)	(28,163)
(Decrease) increase in minority interest	(19)	17
Net cash flows from operating activities	23,466	22,938
<b>CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES:</b>		
Acquisition of property and equipment	(4,717)	(3,538)
Payments for acquisition of television stations	(1,710)	
Investments in equity and cost investees	(59)	(518)
Proceeds from the sale of assets	1,358	21
Proceeds from the sale of broadcast assets related to discontinued operations	1,400	
Loans to affiliates	(35)	(20)
Proceeds from loans to affiliates	34	28
Net cash flows used in investing activities	(3,729)	(4,027)
<b>CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES:</b>		
Proceeds from notes payable, commercial bank financing and capital leases	49,000	
Repayments of notes payable, commercial bank financing and capital leases	(61,114)	(2,500)
Proceeds from exercise of stock options		13
Dividends paid on Series D Convertible Exchangeable Preferred Stock		(2,502)
Dividends paid on Class A and Class B Common Stock	(8,470)	(2,129)
Repayments of notes and capital leases to affiliates	(1,055)	(953)
Net cash flows used in financing activities	(21,639)	(8,071)

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NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(1,902 )	10,840
CASH AND CASH EQUIVALENTS, beginning of period	9,655	10,491
CASH AND CASH EQUIVALENTS, end of period	\$ 7,753	\$ 21,331

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

7

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**SINCLAIR BROADCAST GROUP, INC.**  
**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

*Principles of Consolidation*

The accompanying unaudited consolidated financial statements include the accounts of Sinclair Broadcast Group, Inc. and those of our wholly-owned and majority-owned subsidiaries and variable interest entities. Minority interest represents a minority owner's proportionate share of the equity in certain of our consolidated entities. All significant intercompany transactions and account balances have been eliminated in consolidation.

*Restatement*

*On August 11, 2006, the Audit Committee of our Board of Directors determined that our financial statements for the quarters ended June 30, 2005, September 30, 2005, and March 31, 2006 and for the year ended December 31, 2005 should be restated. The restated financial statements result from an error made in the accounting treatment for the exchange of our Series D Convertible Exchangeable Preferred Stock (the Preferred Stock) into 6% Convertible Debentures, due 2012 (the Debentures) in June 2005. In previously reported consolidated financial statements, we accounted for this transaction as an exchange and our auditors concurred with this treatment. We now believe, and our auditors concur, that the most appropriate accounting guidance to apply to this exchange is EITF Topic D-42, The Effect of the Calculation of Earnings per Share for the Redemption or Induced Conversion of Preferred Stock, and that the exchange should have been treated as a redemption for accounting purposes. Accordingly, we should have recorded the Debentures at fair value upon issuance and the excess of the carrying amount of the Preferred Stock over the fair value of the Debentures should have been added to net earnings to arrive at net earnings available to common shareholders. The difference in the carrying amount of the Preferred Stock and the fair value of the Debentures should have been recorded as a discount on the Debentures and amortized over the life of the Debentures using the effective interest method. Additionally, in calculating and accounting for the carrying amount of the Preferred Stock, all of the issuance costs of the Preferred Stock should have been charged directly to accumulated deficit rather than a portion of these costs recorded as unamortized costs relating to securities issuances and amortized over the remaining term of the Debentures.*

*A summary of the aggregate effect of these restatements on our consolidated balance sheet is shown below (in thousands):*

	As of December 31, 2005		
	As Reported	Adjustment	As Restated
Total current assets	\$ 223,008	\$	\$ 223,008
Total long-term assets	2,062,645	(2,348 )	2,060,297
Total assets	\$ 2,285,653	\$ (2,348 )	\$ 2,283,305
Total current liabilities	\$ 224,688	\$	\$ 224,688
Notes payable, capital leases and commercial bank financing, less current portion	1,426,754	(29,105 )	1,397,649
Notes payable and capital leases to affiliates, less current portion	15,152		15,152
Deferred tax liabilities	278,399	(948 )	277,451
Other long-term liabilities	117,677		117,677
Total liabilities	2,062,670	(30,053 )	2,032,617
Minority interest in consolidated entities	966		966
Class A and Class B Common Stock	854		854
Additional paid-in capital	590,377	2,882	593,259
Accumulated deficit	(369,214 )	24,823	(344,391 )

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Total shareholders' equity	222,017	27,705	249,722
Total liabilities and shareholders' equity	\$ 2,285,653	\$ (2,348 )	\$ 2,283,305

8

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	<b>As of March 31, 2006</b>		
	<b>As Reported</b>	<b>Adjustment</b>	<b>As Restated</b>
Total current assets	\$ 200,053	\$	\$ 200,053
Total long-term assets	2,055,532	(2,138 )	2,053,394
Total assets	\$ 2,255,585	\$	