

SINCLAIR BROADCAST GROUP INC

Form 10-Q

August 05, 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 June 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 July 31, 2016
Class A Common Stock	68,497,702
Class B Common Stock	25,928,357

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SINCLAIR BROADCAST GROUP, INC.

FORM 10-Q  
FOR THE QUARTER ENDED JUNE 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 June 30, 2016	As of December 31, 2015
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 103,727	\$ 149,972
Accounts receivable, net of allowance for doubtful accounts of \$4,357 and \$4,495, respectively	489,884	424,608
Current portion of program contract costs	36,359	91,466
Income taxes receivable	—	823
Prepaid expenses and other current assets	38,949	26,903
Deferred barter costs	9,100	7,991
Total current assets	678,019	701,763
PROGRAM CONTRACT COSTS, less current portion	10,484	18,996
PROPERTY AND EQUIPMENT, net	727,806	717,137
RESTRICTED CASH	—	3,725
GOODWILL	2,017,382	1,931,093
INDEFINITE-LIVED INTANGIBLE ASSETS	157,725	132,465
DEFINITE-LIVED INTANGIBLE ASSETS, net	1,975,786	1,751,570
OTHER ASSETS	212,475	175,566
Total assets (a)	\$ 5,779,677	\$ 5,432,315
<b>LIABILITIES AND EQUITY (DEFICIT)</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable and accrued liabilities	\$ 271,926	\$ 251,313
Income taxes payable	8,566	—
Current portion of notes payable, capital leases and commercial bank financing	175,044	164,184
Current portion of notes and capital leases payable to affiliates	3,501	3,166
Current portion of program contracts payable	63,492	108,260
Deferred barter revenues	9,211	8,080
Total current liabilities	531,740	535,003
<b>LONG-TERM LIABILITIES:</b>		
Notes payable, capital leases and commercial bank financing, less current portion	3,984,262	3,669,160
Notes payable and capital leases to affiliates, less current portion	15,953	17,850
Program contracts payable, less current portion	45,110	56,921
Deferred tax liabilities	587,289	585,072
Other long-term liabilities	72,429	68,631
Total liabilities (a)	5,236,783	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, 68,734,950 and 68,792,483 shares issued and outstanding, respectively	687	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	964,818	962,726

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Accumulated deficit	(394,418 )	(437,029 )
Accumulated other comprehensive loss	(834 )	(834 )
Total Sinclair Broadcast Group shareholders' equity	570,512	525,810
Noncontrolling interests	(27,618 )	(26,132 )
Total equity	542,894	499,678
Total liabilities and equity	\$5,779,677	\$ 5,432,315

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

Our consolidated total assets as of June 30, 2016 and December 31, 2015 include total assets of variable interest entities (VIEs) of \$147.5 million and \$152.4 million, respectively, which can only be used to settle the obligations (a) of the VIEs. Our consolidated total liabilities as of June 30, 2016 and December 31, 2015 include total liabilities of the VIEs of \$30.4 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		Six Months Ended	
	June 30,		June 30,	
	2016	2015	2016	2015
<b>REVENUES:</b>				
Media revenues	\$606,268	\$503,170	\$1,137,591	\$967,921
Revenues realized from station barter arrangements	34,003	30,373	60,513	51,332
Other non-media revenues	26,263	20,624	47,319	39,689
Total revenues	666,534	554,167	1,245,423	1,058,942
<b>OPERATING EXPENSES:</b>				
Media production expenses	243,620	181,810	459,497	353,381
Media selling, general and administrative expenses	128,488	103,225	243,497	205,466
Expenses recognized from station barter arrangements	29,259	26,381	52,184	43,793
Amortization of program contract costs and net realizable value adjustments	30,821	29,782	64,281	60,173
Other non-media expenses	19,761	15,520	37,458	30,433
Depreciation of property and equipment	24,409	25,273	48,444	50,462
Corporate general and administrative expenses	14,279	14,183	35,620	30,221
Amortization of definite-lived intangible and other assets	45,625	39,445	89,390	79,425
Research and development expenses	1,209	4,237	2,310	6,752
Gain on asset disposition	(11)	(29)	(2,671)	(51)
Total operating expenses	537,460	439,827	1,030,010	860,055
Operating income	129,074	114,340	215,413	198,887
<b>OTHER INCOME (EXPENSE):</b>				
Interest expense and amortization of debt discount and deferred financing costs	(53,916)	(47,664)	(103,331)	(94,312)
Income from equity and cost method investments	943	2,007	1,366	5,153
Other income, net	1,104	1,050	1,566	1,268
Total other expense, net	(51,869)	(44,607)	(100,399)	(87,891)
Income before income taxes	77,205	69,733	115,014	110,996
<b>INCOME TAX PROVISION</b>	(26,605)	(23,334)	(38,785)	(39,761)
<b>NET INCOME</b>	50,600	46,399	76,229	71,235
Net income attributable to the noncontrolling interests	(1,181)	(612)	(2,670)	(1,166)
<b>NET INCOME ATTRIBUTABLE TO SINCLAIR BROADCAST GROUP</b>	\$49,419	\$45,787	\$73,559	\$70,069
Dividends declared per share	\$0.180	\$0.165	\$0.345	\$0.330
<b>BASIC AND DILUTED EARNINGS PER COMMON SHARE ATTRIBUTABLE TO SINCLAIR BROADCAST GROUP:</b>				
Basic earnings per share	\$0.52	\$0.48	\$0.77	\$0.74
Diluted earnings per share	\$0.52	\$0.48	\$0.77	\$0.73
Weighted average common shares outstanding	95,026	95,307	94,922	95,219
Weighted average common and common equivalent shares outstanding	95,934	96,050	95,819	95,911

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		Six Months Ended	
	Ended		June 30,	
	June 30,		June 30,	
	2016	2015	2016	2015
Net income	\$50,600	\$46,399	\$76,229	\$71,235
Amortization of net periodic pension benefit costs, net of taxes	—	84	—	168
Comprehensive income	50,600	46,483	76,229	71,403
Comprehensive income attributable to the noncontrolling interests	(1,181 )	(612 )	(2,670 )	(1,166 )
Comprehensive income attributable to Sinclair Broadcast Group	\$49,419	\$45,871	\$73,559	\$70,237

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 Deficit	Accumulated Other Comprehensive Loss	Noncontrolling Interests	Total Equity (Deficit)
	Class A Common Stock Shares	Values	Class B Common Stock Shares	Values	Additional Paid-In Capital				
BALANCE, December 31, 2014	69,578,899	\$ 696	25,928,357	\$ 259	\$ 979,202	\$(545,820 )	\$(6,455 )	\$(22,539 )	\$ 405,343
Dividends declared and paid on Class A and Class B Common Stock	—	—	—	—	—	(31,464 )	—	—	(31,464 )
Repurchases of Class A Common Stock	(304,787 )	(3 )	—	—	(7,800 )	—	—	—	(7,803 )
Class A Common Stock issued pursuant to employee benefit plans	261,050	2	—	—	9,510	—	—	—	9,512
Tax benefit on share based awards	—	—	—	—	695	—	—	—	695
Distributions to noncontrolling interests, net	—	—	—	—	—	—	—	(2,464 )	(2,464 )
Other comprehensive income	—	—	—	—	—	—	168	—	168
Issuance of subsidiary stock awards	—	—	—	—	—	—	—	1,037	1,037
Net income	—	—	—	—	—	70,069	—	1,166	71,235
BALANCE, June 30, 2015	69,535,162	\$ 695	25,928,357	\$ 259	\$ 981,607	\$(507,215 )	\$(6,287 )	\$(22,800 )	\$ 446,259

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 Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Noncontrolling Interests	Total Equity (Deficit)
	Class A Common Stock Shares	Values	Class B Common Stock Shares	Values					
BALANCE, December 31, 2015	68,792,483	\$ 688	25,928,357	\$ 259	\$ 962,726	\$(437,029 )	\$ (834 )	\$ (26,132 )	\$ 499,678
Cumulative effect of adoption of new accounting standard (see Note 1)	—	—	—	—	431	1,833	—	—	2,264
Dividends declared and paid on Class A and Class B Common Stock	—	—	—	—	—	(32,781 )	—	—	(32,781 )
Repurchases of Class A Common Stock	(384,700 )	(4 )	—	—	(11,243 )	—	—	—	(11,247 )
Class A Common Stock issued pursuant to employee benefit plans	327,167	3	—	—	12,904	—	—	—	12,907
Distributions to noncontrolling interests, net	—	—	—	—	—	—	—	(4,370 )	(4,370 )
Issuance of subsidiary stock awards	—	—	—	—	—	—	—	214	214
Net income	—	—	—	—	—	73,559	—	2,670	76,229
BALANCE, June 30, 2016	68,734,950	\$ 687	25,928,357	\$ 259	\$ 964,818	\$(394,418 )	\$ (834 )	\$ (27,618 )	\$ 542,894

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)

	Six Months Ended June 30,	
	2016	2015
<b>CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES:</b>		
Net income	\$76,229	\$71,235
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation of property and equipment	48,444	50,462
Amortization of definite-lived intangible and other assets	89,390	79,425
Amortization of program contract costs and net realizable value adjustments	64,281	60,173
Stock-based compensation expense	9,969	11,577
Deferred tax benefit	(2,797)	(17,368)
Change in assets and liabilities, net of acquisitions:		
(Increase) decrease in accounts receivable	(46,242)	3,433
Increase in prepaid expenses and other current assets	(5,617)	(18,755)
Increase (decrease) in accounts payable and accrued liabilities	18,903	(24,906)
Net change in net income taxes payable/receivable	9,389	21,019
Payments on program contracts payable	(57,242)	(55,676)
Other, net	4,951	(372)
Net cash flows from operating activities	209,658	180,247
<b>CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES:</b>		
Acquisition of property and equipment	(49,786)	(47,062)
Acquisition of businesses, net of cash acquired	(423,104)	—
Purchase of alarm monitoring contracts	(21,616)	(16,673)
Investments in equity and cost method investees	(21,843)	(37,809)
Loans to affiliates	(19,500)	—
Other, net	7,399	11,651
Net cash flows used in investing activities	(528,450)	(89,893)
<b>CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES:</b>		
Proceeds from notes payable and commercial bank financing	607,555	364,853
Repayments of notes payable, commercial bank financing and capital leases	(279,575)	(360,480)
Dividends paid on Class A and Class B Common Stock	(32,781)	(31,464)
Repurchase of outstanding Class A Common Stock	(11,247)	(7,803)
Other, net	(11,405)	(8,563)
Net cash flows from (used in) financing activities	272,547	(43,457)
<b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(46,245)</b>	<b>46,897</b>
<b>CASH AND CASH EQUIVALENTS, beginning of period</b>	<b>149,972</b>	<b>17,682</b>
<b>CASH AND CASH EQUIVALENTS, end of period</b>	<b>\$103,727</b>	<b>\$64,579</b>

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

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SINCLAIR BROADCAST GROUP, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Nature of Operations

Sinclair Broadcast Group, Inc. is a diversified television broadcasting company with national reach with a strong focus on providing high-quality content on our local television stations and digital platforms. The content, distributed through our broadcast platform, consists of programming provided by third-party networks and syndicators, local news, and other original programming produced by us. We also distribute our original programming, and owned and operated network affiliates, on other third-party platforms. Additionally, we own digital media products that are complementary to our extensive portfolio of television station related digital properties. Outside of our media related businesses, we operate technical services companies focused on supply and maintenance of broadcast transmission systems as well as research and development for the advancement of broadcast technology, and we manage other non-media related investments.

As of June 30, 2016, our broadcast distribution platform is a single reportable segment for accounting purposes. It consists primarily of our broadcast television stations, which we own, provide programming and operating services pursuant to agreements commonly referred to as local marketing agreements (LMAs), or provide sales services and other non-programming operating services pursuant to other outsourcing agreements (such as joint sales agreements (JSAs) and shared services agreements (SSAs)) to 173 stations in 81 markets. These stations broadcast 484 channels, as of June 30, 2016. For the purpose of this report, these 173 stations and 484 channels are referred to as “our” stations and channels.

Principles of Consolidation

The consolidated financial statements include our accounts and those of our wholly-owned and majority-owned subsidiaries and variable interest entities (VIEs) for which we are the primary beneficiary. Noncontrolling interest represents a minority owner’s proportionate share of the equity in certain of our consolidated entities. All intercompany transactions and account balances have been eliminated in consolidation.

Interim Financial Statements

The consolidated financial statements for the three and six months ended June 30, 2016 and 2015 are unaudited. In the opinion of management, such financial statements have been presented on the same basis as the audited consolidated financial statements and include all adjustments, consisting only of normal recurring adjustments necessary for a fair statement of the consolidated balance sheets, consolidated statements of operations, consolidated statements of comprehensive income, consolidated statement of equity (deficit) and consolidated statements of cash flows for these periods as adjusted for the adoption of recent accounting pronouncements discussed below.

As permitted under the applicable rules and regulations of the Securities and Exchange Commission (SEC), the consolidated financial statements do not include all disclosures normally included with audited consolidated financial statements and, accordingly, should be read together with the audited consolidated financial statements and notes thereto in our Annual Report on Form 10-K for the year ended December 31, 2015 filed with the SEC. The consolidated statements of operations presented in the accompanying consolidated financial statements are not necessarily representative of operations for an entire year.

Variable Interest Entities

In determining whether we are the primary beneficiary of a VIE for financial reporting purposes, we consider whether we have the power to direct the activities of the VIE that most significantly impact the economic performance of the VIE and whether we have the obligation to absorb losses or the right to receive returns that would be significant to the VIE. We consolidate VIEs when we are the primary beneficiary.

Third-party station licensees. Certain of our stations provide services to other station owners within the same respective market through agreements, such as LMAs, where we provide programming, sales, operational and administrative services, and JSAs and SSAs, where we provide non-programming, sales, operational and administrative services. In certain cases, we have also entered into purchase agreements or options to purchase the license related assets of the licensee. We typically own the majority of the non-license assets of the stations, and in some cases where the licensee acquired the license assets concurrent with our acquisition of the non-license assets of the station, we have provided guarantees to the bank for the licensee's acquisition financing. The terms of the agreements vary, but generally have initial terms of over five years with several optional renewal terms. As of June 30,

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2016 and December 31, 2015, respectively, we have concluded that 37 of these licensees are VIEs. Based on the terms of the agreements and the significance of our investment in the stations, we are the primary beneficiary of the variable interests because, subject to the ultimate control of the licensees, we have the power to direct the activities which significantly impact the economic performance of the VIE through the services we provide and because we absorb losses and returns that would be considered significant to the VIEs. Several of these VIEs are owned by a related party, Cunningham Broadcasting Corporation (Cunningham). See Note 6. Related Person Transactions for more information about the arrangements with Cunningham. The net revenues of the stations which we consolidate were \$76.8 million and \$148.3 million for the three and six months ended June 30, 2016, and \$71.8 million and \$136.6 million for the three and six months ended June 30, 2015, respectively. The fees paid between us and the licensees pursuant to these arrangements are eliminated in consolidation. See Changes in the Rules of Television Ownership, Joint Sales Agreements, and Retransmission Consent Negotiations within Note 4. Commitments and Contingencies for discussion of recent changes in FCC rules related to JSAs.

As of the dates indicated, the carrying amounts and classification of the assets and liabilities of the VIEs mentioned above which have been included in our consolidated balance sheets for the periods presented (in thousands):

	June 30, 2016	December 31, 2015
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 490	\$ 490
Accounts receivable	22,692	21,719
Current portion of program contract costs	6,609	13,287
Prepaid expenses and other current assets	396	331
Total current assets	30,187	35,827
PROGRAM CONTRACT COSTS, less current portion	2,644	4,541
PROPERTY AND EQUIPMENT, net	8,828	7,609
GOODWILL	791	787
INDEFINITE-LIVED INTANGIBLE ASSETS	15,684	17,599
DEFINITE-LIVED INTANGIBLE ASSETS, net	82,396	79,086
OTHER ASSETS	6,924	6,924
Total assets	\$ 147,454	\$ 152,373
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable and accrued liabilities	\$ 1,187	\$ 1,240
Current portion of notes payable, capital leases and commercial bank financing	3,702	3,687
Current portion of program contracts payable	8,256	12,627



Total current liabilities	13,145	17,554
<b>LONG-TERM LIABILITIES:</b>		
Notes payable, capital leases and commercial bank financing, less current portion	22,837	24,594
Program contracts payable, less current portion	11,403	13,679
Other long-term liabilities	9,522	8,067
Total liabilities	\$ 56,907	\$ 63,894

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The amounts above represent the consolidated assets and liabilities of the VIEs described above, for which we are the primary beneficiary, and have been aggregated as they all relate to our broadcast business. Excluded from the amounts above are payments made to Cunningham under the LMAs which are treated as a prepayment of the purchase price of the stations and capital leases between us and Cunningham which are eliminated in consolidation. The total payments made under these LMAs as of June 30, 2016 and December 31, 2015, which are excluded from liabilities above, were \$39.2 million and \$37.6 million, respectively. The total capital lease liabilities, net of capital lease assets, excluded from the above were \$4.4 million and \$4.5 million for June 30, 2016 and December 31, 2015. Also excluded from the amounts above are liabilities associated with certain outsourcing agreements and purchase options with certain VIEs totaling \$78.0 million and \$72.5 million as of June 30, 2016 and December 31, 2015, respectively, as these amounts are eliminated in consolidation. The assets of each of these consolidated VIEs can only be used to settle the obligations of the VIE. All the liabilities are non-recourse to us except for certain debt of VIEs which we guarantee. The risk and reward characteristics of the VIEs are similar.

Other investments. We have investments in real estate ventures and investment companies which are considered VIEs. However, we do not participate in the management of these entities including the day-to-day operating decisions or other decisions which would allow us to control the entity, and therefore, we are not considered the primary beneficiary of these VIEs. We account for these entities using the equity or cost method of accounting.

The carrying amounts of our investments in these VIEs for which we are not the primary beneficiary as of June 30, 2016 and December 31, 2015 are \$113.5 million and \$18.1 million, respectively, and are included in other assets in the consolidated balance sheets. The increase in 2016 was due to the adoption of the revised accounting guidance during the first quarter of 2016 related to consolidation as discussed under Recent Accounting Pronouncements below, which resulted in additional investments being considered VIEs. Our maximum exposure is equal to the carrying value of our investments. The income and loss related to these investments are recorded in income from equity and cost method investments in the consolidated statement of operations. We recorded income of \$0.9 million and \$1.2 million for the three and six months ended June 30, 2016, and income of \$2.6 million and \$5.5 million for the three and six months ended June 30, 2015 respectively.

## Use of Estimates

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

## Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued guidance on revenue recognition for revenue from contracts with customers. This guidance requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers and will replace most existing revenue recognition guidance when it becomes effective. The new standard is effective for the annual reporting period beginning after December 15, 2017, however, early adoption is permitted. The standard permits the use of either the retrospective or cumulative effect transition method. We are currently evaluating the impact of this guidance on our consolidated financial statements.

In August 2014, the FASB issued guidance on disclosure of uncertainties about an entity's ability to continue as a going concern. The new standard is effective for the annual period ending after December 15, 2016, and for annual periods and interim periods thereafter. We are currently evaluating the impact of this new guidance on our

consolidated financial statements.

In February 2015, the FASB issued new guidance that amends the current consolidation guidance on the determination of whether an entity is a variable interest entity. The new standard is effective for the interim and annual periods beginning after December 15, 2015. We adopted this revised guidance on a modified retrospective basis during the three months ended March 31, 2016. As disclosed under Other investments under Variable Interest Entities above, the adoption of the revised guidance resulted in additional investments in real estate ventures and investment companies being considered VIEs, however, we concluded that we were not the primary beneficiary of these investments. The revised guidance did not have any other impact on our consolidation conclusions.

In February 2016, the FASB issued new guidance related to accounting for leases, which requires the assets and liabilities that arise from leases to be recognized on the balance sheet. Currently only capital leases are recorded on the balance sheet. This update will require the lessee to recognize a lease liability equal to the present value of the lease payments and a right-of-use asset representing its right to use the underlying asset for the lease term for all leases longer than 12 months. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and liabilities and recognize the lease expense for such leases generally on a straight-line basis over the lease term. This

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update will be effective for fiscal periods beginning after December 15, 2018, including interim periods within that reporting period. Early adoption is permitted. We are currently evaluating the impact of this guidance on our consolidated financial statements.

In March 2016, the FASB issued new guidance that simplifies several aspects of the accounting for employee share-based payment transactions, including the accounting for income tax effects, forfeitures, the impact of employee income tax withholdings and classification of certain related items in the statement of cash flows. We early adopted this guidance effective January 1, 2016, which did not have a material effect on the consolidated financial statements. The adoption of the various changes in the guidance were applied as required by the guidance either on the prospective, modified retrospective, or full retrospective basis. As shown in the consolidated statement of stockholders' equity, upon adoption, we recorded a \$0.4 million increase to additional paid in capital and a \$1.8 million decrease in accumulated deficit, net of taxes, to record the cumulative effect of changing the classification of certain liability awards to equity classification. Additionally, for the six months ended June 30, 2015, we reclassified \$2.2 million from net cash flows from operating activities to net cash flows from financing activities in our consolidated statement of cash flows related to cash payments made to taxing authorities on certain employees' behalf for shares withheld.

### Revenue Recognition

Total revenues include: (i) cash and barter advertising revenues, net of agency commissions; (ii) retransmission consent fees; (iii) network compensation; (iv) other media revenues and (v) revenues from our other businesses.

Advertising revenues, net of agency commissions, are recognized in the period during which advertisements are placed.

Some of our retransmission consent agreements contain both advertising and retransmission consent elements. We have determined that these retransmission consent agreements are revenue arrangements with multiple deliverables. Advertising and retransmission consent deliverables sold under our agreements are separated into different units of accounting at fair value. Revenue applicable to the advertising element of the arrangement is recognized similar to the advertising revenue policy noted above. Revenue applicable to the retransmission consent element of the arrangement is recognized over the life of the agreement.

Network compensation revenue is recognized over the term of the contract. All other significant revenues are recognized as services are provided.

### Income Taxes

Our income tax provision for all periods consists of federal and state income taxes. The tax provision for the six months ended June 30, 2016 and 2015 is based on the estimated effective tax rate applicable for the full year after taking into account discrete tax items and the effects of the noncontrolling interests. We provide a valuation allowance for deferred tax assets if we determine that it is more likely than not that some or all of the deferred tax assets will not be realized. In evaluating our ability to realize net deferred tax assets, we consider all available evidence, both positive and negative, including our past operating results, tax planning strategies and forecasts of future taxable income. In considering these sources of taxable income, we must make certain judgments that are based on the plans and estimates used to manage our underlying businesses on a long-term basis. A valuation allowance has been provided for deferred tax assets related to a substantial portion of our available state net operating loss (NOL) carryforwards, based on past operating results, expected timing of the reversals of existing temporary book/tax basis differences, alternative tax strategies and projected future taxable income.

Our effective income tax rate for the three and six months ended June 30, 2016 approximated the statutory rate. Our effective income tax rate for the three months ended June 30, 2015 was less than the statutory rate primarily due to a decrease in our income tax provision resulting from certain state law changes. Our effective income tax rate for the six months ended June 30, 2015 exceeded the statutory rate primarily due to an increase in income tax provision resulting from a settlement of a state income tax position.

We believe it is reasonably possible that our liability for unrecognized tax benefits related to continuing operations could be reduced by up to \$1.3 million, in the next twelve months, as a result of expected statute of limitations expirations, the application of limits under available state administrative practice exceptions, and the resolution of examination issues and settlements with federal and certain state tax authorities.

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Share Repurchase Program

On October 28, 1999, we announced a \$150.0 million share repurchase program, which was renewed on February 6, 2008. On March 20, 2014, the Board of Directors authorized a new \$150.0 million share repurchase authorization. There is no expiration date and currently, management has no plans to terminate this program. For the six months ended June 30, 2016, we purchased approximately 0.4 million shares for \$11.2 million. As of June 30, 2016, the total remaining authorization was \$94.3 million. In July 2016, we repurchased an additional 0.2 million shares for \$8.0 million.

Reclassifications

Certain reclassifications have been made to prior years' consolidated financial statements to conform to the current year's presentation.

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## 2. ACQUISITIONS:

Tennis Channel. In March 2016, we acquired all of the outstanding common stock of Tennis Channel (Tennis), a cable network which includes coverage of the top 100 tennis tournaments and original professional sport and tennis lifestyle shows, for \$350.0 million plus a working capital adjustment of \$6.5 million. This was funded through cash on hand and a draw on the Bank Credit Agreement. The acquisition provides an expansion of our network business and increases value based on the synergies we can achieve. Tennis is reported within Other within Note 7. Segment Data.

The following table summarizes the allocated fair value of acquired assets and assumed liabilities (in thousands):

Cash	\$5,111
Accounts receivable	17,629
Prepaid expenses and other current assets	6,518
Property and equipment	5,964
Definite-lived intangible assets	227,096
Indefinite-lived intangible assets	24,900
Other assets	619
Accounts payable and accrued liabilities	(7,414 )
Capital leases	(115 )
Deferred tax liability	(3,964 )
Other long term liabilities	(1,669 )
Fair value of identifiable net assets acquired	274,675
Goodwill	81,814
Total	\$356,489

The allocation presented above is based upon management's estimate of the fair values using valuation techniques including income, cost and market approaches. In estimating the fair value of the acquired assets and assumed liabilities, the fair value estimates are based on, but not limited to, expected future revenue and cash flows, expected future growth rates, and estimated discount rates. The purchase price has been allocated to the acquired assets and assumed liabilities based on estimated fair values. The allocation is preliminary pending a final determination of the fair values of the assets and liabilities.

During the three months ended June 30, 2016, we made certain measurement period adjustments to the initial purchase accounting: an increase to definite-lived intangible assets of \$115.6 million, a decrease to indefinite-lived intangible assets of \$11.6 million, a decrease to deferred taxes assets of \$37.6 million resulting in a net deferred tax liability, a decrease to goodwill of \$66.3 million, and an increase to amortization of less than \$0.1 million during the six months ended June 30, 2016.

Indefinite-lived intangible assets are comprised of trade names. Customer relationships, which represent existing advertiser relationships and contractual relationships with MVPDs, will be amortized over the estimated remaining useful lives of 10 to 15 years. Acquired property and equipment will be depreciated on a straight-line basis over the respective estimated remaining useful lives. Goodwill is calculated as the excess of the consideration transferred over the fair value of the identifiable net assets acquired and represents the future economic benefits expected to arise from other intangible assets acquired that do not qualify for separate recognition, including assembled workforce and noncontractual relationships, as well as expected future synergies. Goodwill will not be deductible for tax purposes. Other intangible assets will be amortized over the respective weighted average useful lives ranging from 1 to 3 years. The following table summarizes the amounts allocated to definite-lived intangible assets representing the estimated fair values (in thousands):

Customer relationships	\$223,400
Other intangible assets	3,696
Fair value of identifiable definite-lived intangible assets acquired	\$227,096

In connection with the acquisitions, for the six months ended June 30, 2016, we incurred a total of \$0.3 million of costs primarily related to legal and other professional services which we expensed as incurred and classified as corporate general and administrative expenses in the consolidated statements of operations. Net revenues and an operating loss of Tennis included in our consolidated



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statements of operations, were \$27.5 million and \$9.7 million, for the three months ended June 30, 2016, and \$35.1 million and \$11.1 million for the six months ended June 30, 2016.

## Pro Forma Information

The following table sets forth unaudited results of operation for the three months ended June 30, 2016 and the unaudited pro forma results of operations for the three months ended June 30, 2015 and for the for the six months ended June 30, 2016 and 2015, assuming that Tennis, along with transactions necessary to finance the acquisition, occurred at the beginning of the year preceding the year of acquisition. The pro forma results exclude the acquisition of television station acquisitions discussed below, as they were deemed not material both individually and in the aggregate (in thousands, except per share data):

	Three months ended		Six months ended June	
	June 30, 2016	2015	2016	2015
Total revenues	\$666,534	\$583,081	\$1,259,915	\$1,107,363
Net Income	\$50,600	\$43,297	\$75,474	\$67,304
Net Income attributable to Sinclair Broadcast Group	\$49,419	\$42,685	\$72,804	\$66,138
Basic earnings per share attributable to Sinclair Broadcast Group	\$0.52	\$0.45	\$0.77	\$0.69
Diluted earnings per share attributable to Sinclair Broadcast Group	\$0.52	\$0.44	\$0.76	\$0.69

This pro forma financial information is based on historical results of operations, adjusted for the allocation of the purchase price and other acquisition accounting adjustments, and is not indicative of what our results would have been had we operated Tennis since the beginning of the annual period presented because the pro forma results do not reflect expected synergies. The pro forma adjustments reflect depreciation expense and amortization of intangible assets related to the fair value adjustments of the assets acquired, additional interest expense related to the financing of the transactions, and exclusion of nonrecurring financing and transaction related costs. Depreciation and amortization expense are higher than amounts recorded in the historical financial statements of the acquirees due to the fair value adjustments recorded for long-lived tangible and intangible assets in purchase accounting.

Television Station Acquisitions. During the six months ended June 30, 2016, we acquired certain television station related assets for an aggregate purchase price of \$72.0 million less working capital of \$0.2 million. In conjunction with the acquisition of the television station in South Bend-Elkhart, IN, we simultaneously sold the broadcast assets of our station in Marquette, MI. For the six months ended June 30, 2016, we recognized a \$2.6 million gain on the sale of the television station in Marquette, MI.

## 3. NOTES PAYABLE AND COMMERCIAL BANK FINANCING:

## 5.875% Senior Notes, due 2026

On March 23, 2016 we issued \$350.0 million in senior unsecured notes, which bear interest at a rate of 5.875% per annum and mature on March 15, 2026 (the 5.875% Notes), pursuant to an indenture dated March 23, 2016 (the 5.875% Indenture). The 5.875% Notes were priced at 100% of their par value and interest is payable semi-annually on March 15 and September 15, commencing on September 15, 2016. Prior to March 15, 2021, we may redeem the 5.875% Notes, in whole or in part, at any time or from time to time at a price equal to 100% of the principal amount of the 5.875% Notes plus accrued and unpaid interest, if any, to the date of redemption, plus a “make-whole” premium as set forth in the 5.875% Indenture. In addition, on or prior to March 15, 2019, we may redeem up to 35% of the 5.875% Notes, using proceeds of certain equity offerings. If we sell certain of our assets or experience specific kinds

of changes of control, the holders of the 5.875% Notes may require us to repurchase some or all of the notes. There are no registration rights associated with the 5.875% Notes. The proceeds from the offering of the 5.875% Notes, were used to repay amounts under our revolving credit facility and for other general corporate purposes. We incurred \$5.9 million of deferred financing costs in connection with the issuance of the 5.875% Notes.

As discussed in Note 2. Acquisitions, we completed the acquisition of Tennis in March 2016. The acquisition was funded, in part, by a draw on our revolving line of credit which was repaid using the proceeds from the 5.875% Notes discussed above.

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Bank Credit Agreement

On July 19, 2016, we entered into an amendment and extension of our bank credit agreement. Pursuant to the amendment, the maturity date applicable to \$485.2 million in revolving commitments and \$139.5 million of term loan A loans has been extended to July 31, 2021. The remaining \$153.5 million of outstanding term loan A loans will mature April 9, 2018. In connection with the transaction, we also amended certain pricing terms related to the loans. Of the estimated financing costs to be paid related to the amendment, we expect to incur approximately \$2.6 million of financing costs in connection with the amendment, of which \$0.3 million will be expensed in the third quarter of 2016, and the remaining \$2.3 million will be deferred and amortized as interest expense over the term of the facilities.

As of June 30, 2016 and December 31, 2015, there was no outstanding balance under our revolving credit facility. As of June 30, 2016, we had \$483.3 million borrowing capacity under our revolving credit facility.

4. COMMITMENTS AND CONTINGENCIES:

Litigation

We are a party to lawsuits and claims from time to time in the ordinary course of business. Actions currently pending are in various stages and no material judgments or decisions have been rendered by hearing boards or courts in connection with such actions. After reviewing developments to date with legal counsel, our management is of the opinion that none of our pending and threatened matters are material.

Various parties have filed petitions to deny our applications or applications of licensees that we provide services to under LMAs for the following stations' license renewals: WXLV-TV, Winston-Salem, North Carolina; WMYV-TV, Greensboro, North Carolina; WLFL-TV, Raleigh / Durham, North Carolina; WRDC-TV, Raleigh / Durham, North Carolina; WLOS-TV, Asheville, North Carolina; WCIV-TV, Charleston, South Carolina ; WMYA-TV, Anderson, South Carolina; WICS-TV, Springfield, Illinois; WBFF-TV, Baltimore, Maryland; WTTE-TV, Columbus, Ohio; WRGT-TV, Dayton, Ohio; WVAH-TV, Charleston / Huntington, West Virginia; WCGV-TV, Milwaukee, Wisconsin; KGAN-TV, Cedar Rapids, Iowa; and WTTO-TV in Birmingham, AL. The FCC is in the process of considering the renewal applications and we believe the petitions have no merit. In connection with the consent decree described below, subject to the satisfaction of certain conditions therein, the FCC has agreed to dismiss the outstanding petitions to deny and grant all pending renewals for the above-mentioned stations.

Changes in the Rules of Television Ownership, Joint Sales Agreements, and Retransmission Consent Negotiations

In March, 2014, the FCC issued a public notice indicating that it will closely scrutinize any broadcast assignment or transfer application proposing sharing arrangements (such as JSAs, LMAs and other shared services agreements) and contingent interests (such as options). We cannot now predict what actions the FCC may require in connection with the processing of applications for FCC consent to future transactions. In addition, in April, 2014, the FCC issued an order amending its multiple ownership rules to provide that, for JSAs where two television stations are located in the same market, and a party with an attributable interest in one station sells more than 15% of the ad time per week of the other station, the party selling such ad time shall be treated as if it had an attributable ownership interest in the second station. The order provided that JSAs that existed on the effective date of the new rule, March 31, 2014, had two years to be terminated, amended or otherwise come into compliance with the new rules. Subsequently, Congress adopted, and the President signed into law, legislation that grandfathered preexisting JSAs until October 1, 2025. The JSA order was the subject of an appeal which was heard by the United States Court of Appeals for the Third Circuit. In a decision issued on May 25, 2016, the Court found that in adopting the JSA attribution rule the FCC impermissibly expanded its attribution policies prior to completing its quadrennial review to determine if its ownership rules remain in the public interest. As a result, the Third Circuit found the FCC's approach to be procedurally invalid, vacated the

JSA attribution rule, and remanded it to the FCC. We cannot predict the outcome of that remand. The FCC may complete its quadrennial review and adopt a new rule making JSAs attributable, which could limit our future ability to create duopolies or other two-station operations in certain markets. The revenues of these JSA arrangements we earned were \$14.3 million and \$11.8 million for the three months ended June 30, 2016 and 2015 and \$26.4 million and \$22.7 million for the six months ended June 30, 2016 and 2015, respectively.

In February 2015, the FCC issued an order implementing certain statutorily required changes to its rules governing the duty to negotiate retransmission consent agreements in good faith. With these changes, a television broadcast station is prohibited from negotiating retransmission consent jointly with another television station in the same market unless the “stations are directly or indirectly under common de jure control permitted under the regulations of the Commission.” During a recent retransmission consent negotiation, an MVPD filed a complaint with the FCC accusing us of violating this rule. Although we reached agreement with the MVPD and they withdrew their complaint, the FCC undertook its own internal investigation

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regarding the allegations made by the MVPD and whether we negotiated in good faith as defined by the rules. In order to resolve the issues raised by the investigation described above and all other pending matters before the FCC's Media Bureau (Bureau), the Company, on July 29, 2016, without any admission of liability, entered into a consent decree with the FCC pursuant to which the Bureau agreed (i) to terminate their investigation regarding the retransmission consent negotiations described above as well as any other investigations pending before the Bureau, (ii) to dismiss with prejudice or deny any outstanding adversarial pleadings against the Company pending before the Bureau, (iii) to cancel outstanding forfeiture orders issued by the Bureau relating to the Company, and (iv) to grant all of the Company's pending license renewals, subject to a payment by the Company to the United States Treasury in the amount of \$9.5 million. As of June 30, 2016, this liability is included within accounts payable and accrued expenses in the consolidated balance sheet, with a corresponding charge to media selling, general, and administrative expenses in the consolidated statements of operations during the three months ended June 30, 2016. The Company agreed to be subject to ongoing compliance monitoring by the FCC with the terms of the consent decree for a period of 36 months.

Further, in September 2015, the FCC released a Notice of Proposed Rulemaking in response to a Congressional directive in STELAR to examine the "totality of the circumstances test" for good-faith negotiations of retransmission consent. The proposed rulemaking seeks comment on new factors and evidence to consider in its evaluation of claims of bad faith negotiation, including service interruptions prior to a "marquee sports or entertainment event," restrictions on online access to broadcast programming during negotiation impasses, broadcasters' ability to offer bundles of broadcast signals with other broadcast stations or cable networks, and broadcasters' ability to invoke the FCC's exclusivity rules during service interruptions. On July 14, 2016, the FCC's Chairman announced that the FCC would not, at this time, proceed to adopt additional rules governing good faith negotiations of retransmission consent. No formal action has yet been taken on this Notice of Proposed Rulemaking, and we cannot predict if the full Commission will agree to terminate the Rulemaking without action.

## 5. EARNINGS PER SHARE:

The following table reconciles income (numerator) and shares (denominator) used in our computations of basic and diluted earnings per share for the periods presented (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Income (Numerator)				
Net Income	\$50,600	\$46,399	\$76,229	\$71,235
Net (income) loss attributable to noncontrolling interests	(1,181 )	(612 )	(2,670 )	(1,166 )
Numerator for diluted earnings per common share available to common shareholders	\$49,419	\$45,787	\$73,559	\$70,069
Shares (Denominator)				
Weighted-average common shares outstanding	95,026	95,307	94,922	95,219
Dilutive effect of stock-settled appreciation rights, restricted stock awards and outstanding stock options	908	743	897	692
Weighted-average common and common equivalent shares outstanding	95,934	96,050	95,819	95,911

There were 525,000 shares for the three and six months ended June 30, 2016, and no shares for the three and six months ended June 30, 2015 which had an anti-dilutive effect on the equivalent shares outstanding and therefore excluded from the diluted effect above.



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6. RELATED PERSON TRANSACTIONS:

Transactions with our controlling shareholders

David, Frederick, J. Duncan and Robert Smith (collectively, the controlling shareholders) are brothers and hold substantially all of the Class B Common Stock and some of our Class A Common Stock. We engaged in the following transactions with them and/or entities in which they have substantial interests.

Leases. Certain assets used by us and our operating subsidiaries are leased from Cunningham Communications Inc., Keyser Investment Group, Gerstell Development Limited Partnership and Beaver Dam, LLC (entities owned by the controlling shareholders). Lease payments made to these entities were \$1.3 million and \$1.2 million for the three months ended June 30, 2016 and 2015, and \$2.5 million and \$2.6 million for six months ended June 30, 2016 and 2015, respectively.

In September 2015, we were granted authority by the Federal Communications Commission (FCC) to operate an experimental facility in Washington D.C. and Baltimore markets to implement a Single Frequency Network (SFN) using the base elements of the new ATSC 3.0 transmission standard. In conjunction with this experimental facility, Cunningham Communications, Inc. will be providing tower space without charge.

Charter Aircraft. We lease aircraft owned by certain controlling shareholders. We incurred expenses of \$0.3 million for both the three months ended June 30, 2016 and 2015, and \$0.7 million and \$0.6 million the for the six months ended June 30, 2016 and 2015, respectively.

Cunningham Broadcasting Corporation

Cunningham owns a portfolio of television stations including: WNUV-TV Baltimore, Maryland; WRGT-TV Dayton, Ohio; WVAH-TV Charleston, West Virginia; WMYA-TV Anderson, South Carolina; WTTE-TV Columbus, Ohio; WDBB-TV Birmingham, Alabama; WBSF-TV Flint, Michigan; and WGTU-TV/WGTQ-TV Traverse City/Cadillac, Michigan (collectively, the Cunningham Stations).

The estate of Carolyn C. Smith, the mother of our controlling shareholders, currently owns all of the voting stock of the Cunningham Stations. The sale of the voting stock by the estate to an unrelated party is pending approval of the FCC. All of the non-voting stock is owned by trusts for the benefit of the children of our controlling shareholders. We consolidate certain subsidiaries of Cunningham, with which we have variable interests through various arrangements related to the Cunningham Stations discussed further below.

As of June 30, 2016, certain of our stations provide programming, sales and managerial services pursuant to LMAs to six of the Cunningham stations: WNUV-TV, WRGT-TV, WVAH-TV, WMYA-TV, WTTE-TV, and WDBB-TV (collectively, the Cunningham LMA Stations). Each of these LMAs has a current term that expires on July 1, 2023 and there are two additional 5- year renewal terms remaining with final expiration on July 1, 2033. We also executed purchase agreements to acquire the license related assets of these stations from Cunningham, which grant us the right to acquire, and grant Cunningham the right to require us to acquire, subject to applicable FCC rules and regulations, 100% of the capital stock or the assets of these individual subsidiaries of Cunningham. Our applications to acquire these license related assets are pending FCC approval. In July 2016, we ceased providing programming services to WRGT-TV and WVAH-TV, however, we continue to provide all other services under these agreements.

Pursuant to the terms of the LMAs, options and other agreements, we are obligated to pay Cunningham an annual LMA fee for the television stations equal to the greater of (i) 3% of each station's annual net broadcast revenue and (ii) \$4.7 million. The aggregate purchase price of these television stations increases by 6% annually. A portion of the LMA fee is required to be applied to the purchase price to the extent of the 6% increase. The remaining aggregate purchase price of these stations as of June 30, 2016 was approximately \$53.6 million.

We are obligated to pay Cunningham under our LMAs with these stations \$2.3 million and \$2.1 million for the three months ended June 30, 2016 and 2015, respectively and \$4.5 million and \$4.4 million for the six months ended June 30, 2016 and 2015, respectively. For the three months ended June 30, 2016 and 2015, Cunningham LMA Stations provided us with approximately \$28.8 million and \$24.1 million, respectively, and approximately \$54.4 million and \$45.9 million for the six months ended June 30, 2016 and 2015, respectively, of total revenue.



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Cunningham also owns the license related assets of WBSF-TV and WGTU-TV/WGTQ-TV. We provide certain non-programming related sales, operational and administrative services to these stations pursuant to certain JSAs and SSAs. The agreements with WBSF-TV and WGTU-TV/WGTQ-TV expire in November 2021 and August 2023, respectively, and each has renewal provisions for successive eight year periods. Under these arrangements, we earned \$1.5 million and \$1.0 million from the services we performed for these stations for the three months ended June 30, 2016 and 2015, respectively, and \$2.8 million and \$2.2 million for the six months ended June 30, 2016 and 2015, respectively. As we consolidate the licensees as VIEs, the amounts we earn under the arrangements are eliminated in consolidation and the gross revenues of the stations are reported within our consolidated statement of operations. Our consolidated revenues related to these stations include \$2.1 million and \$1.9 million for the three months ended June 30, 2016 and 2015, respectively, and \$4.1 million and \$3.7 million for the six months ended June 30, 2016 and 2015, respectively.

During January 2016, Cunningham entered into a promissory note to borrow \$19.5 million from us. The note bears interest at a fixed rate of 5.0% per annum (the 5.0% Notes), which is payable quarterly, commencing March 31, 2016. The note matures in January 2021, with additional one year renewal periods upon our approval.

In April 2016, we entered into an agreement with Cunningham to provide master control equipment and provide master control services to a station in Johnstown, PA with which they have an LMA for a period of three years ending in 2019. Under the agreement, Cunningham will pay us an initial fee of \$0.7 million and \$0.2 million annually for master control services plus the cost to maintain and repair of the equipment.

Atlantic Automotive Corporation

We sold advertising time to and purchased vehicles and related vehicle services from Atlantic Automotive Corporation (Atlantic Automotive), a holding company that owns automobile dealerships and an automobile leasing company. David D. Smith, our President and Chief Executive Officer, has a controlling interest in, and is a member of the Board of Directors of Atlantic Automotive. We received payments for advertising totaling \$0.2 million and \$0.1 million for the three months ended June 30, 2016 and 2015, and \$0.2 million for both the six months ended June 30, 2016 and 2015, respectively. No payments for vehicles or vehicle related services were paid to Atlantic Automotive during the three and six months ended June 30, 2016 and 2015. Additionally, Atlantic Automotive leases office space owned by one of our consolidated real estate ventures in Towson, Maryland. Atlantic Automotive paid \$0.2 million and \$0.3 million in rent during the three months ended June 30, 2016 and 2015, and \$0.5 million and \$0.6 million for the six months ended June 30, 2016 and 2015, respectively.

Leased property by real estate ventures

Certain of our real estate ventures have entered into leases with entities owned by David Smith to lease restaurant space. There are leases for three restaurants in a building owned by one of our consolidated real estate ventures in Baltimore, MD. Total rent received under these leases was \$0.2 million for both the three months ended June 30, 2016 and 2015, and \$0.3 million for both the six months ended June 30, 2016 and 2015. There is also one lease for a restaurant in a building owned by one of our real estate ventures, accounted for under the equity method, in Towson, MD. This investment received \$0.1 million in rent pursuant to the lease for both the three months ended June 30, 2016 and 2015, and \$0.2 million and \$0.1 million for the six months ended June 30, 2016 and 2015, respectively.

Payments for services provided by these three restaurants to us was less than \$0.1 million for the three and six months ended June 30, 2016 and 2015, respectively.

7. SEGMENT DATA:

We measure segment performance based on operating income (loss). Our broadcast segment includes stations in 81 markets located throughout the continental United States. Other primarily consists of original networks and content, digital and internet solutions, technical services and other non-media investments. All of our businesses are located within the United States. Corporate costs primarily include our costs to operate as a public company and to operate our corporate headquarters location. Other and Corporate are not reportable segments but are included for reconciliation purposes.

We had approximately \$226.4 million and \$225.9 million of intercompany loans between the broadcast segment, other and corporate as of June 30, 2016 and 2015, respectively. We had \$6.1 million and \$5.6 million in intercompany interest expense related to intercompany loans between the broadcast segment, other and corporate for the three months ended June 30, 2016 and 2015, respectively. We had \$12.1 million and \$10.8 million in intercompany interest expense for the six months ended June 30, 2016 and 2015, respectively. All other intercompany transactions are immaterial.

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Segment financial information is included in the following tables for the periods presented (in thousands):

For the three months ended June 30, 2016	Broadcast	Other	Corporate	Consolidated
Revenue	\$ 608,169	\$ 58,365	\$ —	\$ 666,534
Depreciation of property and equipment	22,526	1,617	266	24,409
Amortization of definite-lived intangible assets and other assets	38,551	7,074	—	45,625
Amortization of program contract costs and net realizable value adjustments	30,821	—	—	30,821
General and administrative overhead expenses	12,995	283	1,001	14,279
Research and development	—	1,209	—	1,209
Operating income (loss)	145,400	(15,059 )	(1,267)	129,074
Interest expense	1,411	1,555	50,950	53,916
Income from equity and cost method investments	—	943	—	943
For the three months ended June 30, 2015	Broadcast	Other	Corporate	Consolidated
Revenue	\$ 532,362	\$ 21,805	\$ —	\$ 554,167
Depreciation of property and equipment	24,363	631	279	25,273
Amortization of definite-lived intangible assets and other assets	37,232	2,213	—	39,445
Amortization of program contract costs and net realizable value adjustments	29,782	—	—	29,782
General and administrative overhead expenses	11,332	1,265	1,586	14,183
Research and development	—	4,237	—	4,237
Operating income (loss)	122,236	(6,481 )	(1,415)	114,340
Interest expense	—	1,161	46,503	47,664
Income from equity and cost method investments	—	2,007	—	2,007
For the six months ended June 30, 2016	Broadcast	Other	Corporate	Consolidated
Revenue	1,155,002	90,421	—	1,245,423
Depreciation of property and equipment	45,274	2,638	532	48,444
Amortization of definite-lived intangible assets and other assets	78,321	11,069	—	89,390
Amortization of program contract costs and net realizable value adjustments	64,281	—	—	64,281
General and administrative overhead expenses	33,431	839	1,350	35,620
Research and development	—	2,310	—	2,310
Operating income (loss)	243,451	(26,156 )	(1,882 )	215,413
Interest expense	2,893	3,031	97,407	103,331
Income from equity and cost method investments	—	1,366	—	1,366
Assets	4,832,211	825,829	121,637	5,779,677

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For the six months ended June 30, 2015	Broadcast	Other	Corporate	Consolidated
Revenue	\$1,017,414	\$41,528	\$ —	\$ 1,058,942
Depreciation of property and equipment	48,539	1,365	558	50,462
Amortization of definite-lived intangible assets and other assets	75,123	4,302	—	79,425
Amortization of program contract costs and net realizable value adjustments	60,173	—	—	60,173
General and administrative overhead expenses	26,259	1,524	2,438	30,221
Research and development	—	6,752	—	6,752
Operating income (loss)	214,105	(12,845 )	(2,373)	198,887
Interest expense	—	2,236	92,076	94,312
Income from equity and cost method investments	—	5,153	—	5,153

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## 8. FAIR VALUE MEASUREMENTS:

Accounting guidance provides for valuation techniques, such as the market approach (comparable market prices), the income approach (present value of future income or cash flow), and the cost approach (cost to replace the service capacity of an asset or replacement cost). A fair value hierarchy using three broad levels prioritizes the inputs to valuation techniques used to measure fair value. The following is a brief description of those three levels:

- Level 1: Observable inputs such as quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets and quoted prices for identical or similar assets or liabilities in markets that are not active.
- Level 3: Unobservable inputs that reflect the reporting entity's own assumptions.

The carrying value and fair value of our notes and debentures for the periods presented (in thousands):

	As of June 30, 2016		As of December 31, 2015	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Level 2:				
6.375% Senior Unsecured Notes due 2021	\$350,000	\$370,125	\$350,000	\$367,325
6.125% Senior Unsecured Notes due 2022	500,000	520,000	500,000	512,500
5.875% Senior Unsecured Notes due 2026	350,000	357,875	—	—
5.625% Senior Unsecured Notes due 2024	550,000	563,750	550,000	539,000
5.375% Senior Unsecured Notes due 2021	600,000	615,600	600,000	605,658
Term Loan A	292,948	290,751	313,620	308,916
Term Loan B	1,369,414	1,365,205	1,376,007	1,365,461
Debt of variable interest entities	24,941	24,941	26,682	26,682
Debt of other operating divisions	129,151	129,151	120,969	120,969

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9. CONDENSED CONSOLIDATING FINANCIAL STATEMENTS:

Sinclair Television Group, Inc. (STG), a wholly-owned subsidiary and the television operating subsidiary of Sinclair Broadcast Group, Inc. (SBG), is the primary obligor under the Bank Credit Agreement, the 5.375% Notes, the 5.625% Notes, 6.125% Notes, 6.375% Notes, and 5.875% Notes. Our Class A Common Stock and Class B Common Stock as of June 30, 2016, were obligations or securities of SBG and not obligations or securities of STG. SBG is a guarantor under the Bank Credit Agreement, the 5.375% Notes, 5.625% Notes, 6.125% Notes, 6.375% Notes, and 5.875% Notes. As of June 30, 2016, our consolidated total debt, net of deferred financing costs and debt discounts, of \$4,178.8 million included \$4,047.2 million related to STG and its subsidiaries of which SBG guaranteed \$3,996.7 million.

SBG, KDSM, LLC, a wholly-owned subsidiary of SBG, and STG's wholly-owned subsidiaries (guarantor subsidiaries), have fully and unconditionally guaranteed, subject to certain customary automatic release provisions, all of STG's obligations. Those guarantees are joint and several. There are certain contractual restrictions on the ability of SBG, STG or KDSM, LLC to obtain funds from their subsidiaries in the form of dividends or loans.

The following condensed consolidating financial statements present the consolidated balance sheets, consolidated statements of operations and consolidated statements of cash flows of SBG, STG, KDSM, LLC and the guarantor subsidiaries, the direct and indirect non-guarantor subsidiaries of SBG and the eliminations necessary to arrive at our information on a consolidated basis.

These statements are presented in accordance with the disclosure requirements under SEC Regulation S-X, Rule 3-10.

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## CONDENSED CONSOLIDATING BALANCE SHEET

AS OF JUNE 30, 2016

(in thousands) (unaudited)

	Sinclair Broadcast Group, Inc.	Sinclair Television Group, Inc.	Guarantor Subsidiaries and KDSM, LLC	Non- Guarantor Subsidiaries	Eliminations	Sinclair Consolidated	
Cash	\$ —	\$72,237	\$6,799	\$24,691	\$—	\$103,727	
Accounts receivable	—	—	456,880	34,251	(1,247	) 489,884	
Other current assets	219	6,292	62,550	18,106	(2,759	) 84,408	
Total current assets	219	78,529	526,229	77,048	(4,006	) 678,019	
Property and equipment, net	2,352	19,376	572,156	142,792	(8,870	) 727,806	
Investment in consolidated subsidiaries	543,948	3,772,032	4,179	—	(4,320,159	) —	
Goodwill	—	—	2,013,103	4,279	—	2,017,382	
Indefinite-lived intangible assets	—	—	142,016	15,709	—	157,725	
Definite-lived intangible assets	—	—	1,812,739	224,729	(61,682	) 1,975,786	
Other long-term assets	50,901	742,864	104,553	150,306	(825,665	) 222,959	
Total assets	\$ 597,420	\$4,612,801	\$5,174,975	\$ 614,863	\$(5,220,382)	\$5,779,677	
Accounts payable and accrued liabilities	\$ 100	\$50,101	\$196,045	\$29,053	\$(3,373	) \$271,926	
Current portion of long-term debt	—	59,938	1,751	113,355	—	175,044	
Current portion of affiliate long-term debt	1,752	—	1,532	2,137	(1,920	) 3,501	
Other current liabilities	—	—	72,960	8,309	—	81,269	
Total current liabilities	1,852	110,039	272,288	152,854	(5,293	) 531,740	
Long-term debt	—	3,912,120	31,977	40,165	—	3,984,262	
Affiliate long-term debt	948	—	13,364	378,060	(376,419	) 15,953	
Other liabilities	24,108	30,953	1,101,937	174,008	(626,178	) 704,828	
Total liabilities	26,908	4,053,112	1,419,566	745,087	(1,007,890	) 5,236,783	
Total Sinclair Broadcast Group equity (deficit)	570,512	559,689	3,755,409	(98,249	) (4,216,849	) 570,512	
Noncontrolling interests in consolidated subsidiaries	—	—	—	(31,975	) 4,357	(27,618	)
Total liabilities and equity (deficit)	\$ 597,420	\$4,612,801	\$5,174,975	\$ 614,863	\$(5,220,382)	\$5,779,677	

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## CONDENSED CONSOLIDATING BALANCE SHEET

AS OF DECEMBER 31, 2015

(in thousands)

	Sinclair Broadcast Group, Inc.	Sinclair Television Group, Inc.	Guarantor Subsidiaries and KDSM, LLC	Non- Guarantor Subsidiaries	Eliminations	Sinclair Consolidated
Cash	\$ —	\$ 115,771	\$ 235	\$ 33,966	\$ —	\$ 149,972
Accounts receivable	—	1,775	390,142	33,949	(1,258)	) 424,608
Other current assets	3,648	5,172	99,118	23,278	(4,033)	) 127,183
Total current assets	3,648	122,718	489,495	91,193	(5,291)	) 701,763
Property and equipment, net	2,884	20,336	559,042	143,667	(8,792)	) 717,137
Investment in consolidated subsidiaries	497,262	3,430,434	4,179	—	(3,931,875)	) —
Goodwill	—	—	1,926,814	4,279	—	) 1,931,093
Indefinite-lived intangible assets	—	—	114,841	17,624	—	) 132,465
Definite-lived intangible assets	—	—	1,602,454	206,975	(57,859)	) 1,751,570
Other long-term assets	52,128	673,915	110,507	140,910	(779,173)	) 198,287
Total assets	\$ 555,922	\$ 4,247,403	\$ 4,807,332	\$ 604,648	\$ (4,782,990)	\$ 5,432,315
Accounts payable and accrued liabilities	\$ 104	\$ 49,428	\$ 179,156	\$ 27,462	\$ (4,837)	) \$ 251,313
Current portion of long-term debt	—	57,640	1,611	106,358	(1,425)	) 164,184
Current portion of affiliate long-term debt	1,651	—	1,311	456	(252)	) 3,166
Other current liabilities	—	—	103,627	12,713	—	) 116,340
Total current liabilities	1,755	107,068	285,705	146,989	(6,514)	) 535,003
Long-term debt	—	3,594,218	32,743	42,199	—	) 3,669,160
Affiliate long-term debt	1,857	—	14,240	366,042	(364,289)	) 17,850
Other liabilities	26,500	28,866	1,060,211	171,102	(576,055)	) 710,624
Total liabilities	30,112	3,730,152	1,392,899	726,332	(946,858)	) 4,932,637
Total Sinclair Broadcast Group equity (deficit)	525,810	517,251	3,414,433	(91,703)	(3,839,981)	) 525,810
Noncontrolling interests in consolidated subsidiaries	—	—	—	(29,981)	)	