

SINCLAIR BROADCAST GROUP INC

Form 10-Q

May 10, 2018

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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 March 31, 2018

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

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(§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," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (check one):

Large accelerated filer	Accelerated filer	Non-accelerated filer	Smaller reporting company	Emerging growth company
<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

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

Yes No

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (17 CFR §230.405) or Rule 12b-2 of the Securities Exchange Act of 1934 (17 CFR §240.12b-2). Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 May 7, 2018
Class A Common Stock	76,560,510
Class B Common Stock	25,670,684

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SINCLAIR BROADCAST GROUP, INC.

FORM 10-Q
FOR THE QUARTER ENDED MARCH 31, 2018

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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 March 31, 2018	As of December 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	\$810,232	\$ 681,326
Restricted cash, current	226,558	313,110
Accounts receivable, net of allowance for doubtful accounts of \$2,209 and \$2,590, respectively	538,472	566,464
Current portion of program contract costs	42,736	71,387
Income taxes receivable	27,909	28,150
Prepaid expenses and other current assets	68,784	54,310
Total current assets	1,714,691	1,714,747
Assets held for sale	152,880	—
Program contract costs, less current portion	2,178	3,202
Property and equipment, net	654,432	738,298
Restricted cash, less current portion	1,505	1,504
Goodwill	2,021,970	2,124,033
Indefinite-lived intangible assets	156,629	159,371
Definite-lived intangible assets, net	1,729,563	1,801,670
Other assets	229,563	241,645
Total assets (a)	\$6,663,411	\$ 6,784,470
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	\$356,792	\$ 370,403
Deferred spectrum auction proceeds	—	84,341
Income taxes payable	2,503	2,503
Current portion of notes payable, capital leases and commercial bank financing	154,944	161,049
Current portion of program contracts payable	77,442	108,053
Total current liabilities	591,681	726,349
Liabilities held for sale	12,210	—
Notes payable, capital leases and commercial bank financing, less current portion	3,875,025	3,887,601
Program contracts payable, less current portion	37,170	41,909
Deferred tax liabilities	498,719	515,236
Other long-term liabilities	77,063	79,009
Total liabilities (a)	5,091,868	5,250,104
Commitments and contingencies (See Note 4)		
Shareholders' Equity:		
Class A Common Stock, \$.01 par value, 500,000,000 shares authorized, 76,509,574 and 76,071,145 shares issued and outstanding, respectively	765	761
Class B Common Stock, \$.01 par value, 140,000,000 shares authorized, 25,670,684 and 25,670,684 shares issued and outstanding, respectively, convertible into Class A Common Stock	257	257
Additional paid-in capital	1,332,432	1,320,298
Retained earnings	275,676	248,845

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Accumulated other comprehensive loss	(1,423) (1,423)
Total Sinclair Broadcast Group shareholders' equity	1,607,707	1,568,738	
Noncontrolling interests	(36,164) (34,372)
Total equity	1,571,543	1,534,366	
Total liabilities and equity	\$6,663,411	\$ 6,784,470	

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

Our consolidated total assets as of March 31, 2018 and December 31, 2017 include total assets of variable interest entities (VIEs) of \$122.5 million and \$130.6 million, respectively, which can only be used to settle the obligations (a) of the VIEs. Our consolidated total liabilities as of March 31, 2018 and December 31, 2017 include total liabilities of VIEs of \$23.0 million and \$27.0 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 March 31,	
	2018	2017
REVENUES:		
Media revenues (a)	\$643,651	\$607,057
Non-media revenues	21,701	19,879
Total revenues	665,352	626,936
OPERATING EXPENSES:		
Media production expenses	288,549	258,401
Media selling, general and administrative expenses	146,899	124,721
Amortization of program contract costs and net realizable value adjustments	26,950	31,019
Non-media expenses	21,223	18,402
Depreciation of property and equipment	27,325	23,981
Corporate general and administrative expenses	24,596	20,576
Amortization of definite-lived intangible and other assets	43,605	45,554
Gain on asset dispositions, net of impairment	(21,109)	(53,347)
Total operating expenses	558,038	469,307
Operating income	107,314	157,629
OTHER INCOME (EXPENSE):		
Interest expense and amortization of debt discount and deferred financing costs	(69,742)	(57,318)
Loss from extinguishment of debt	—	(1,404)
Loss from equity and cost method investments	(12,477)	(1,321)
Other income, net	3,271	1,696
Total other expense, net	(78,948)	(58,347)
Income before income taxes	28,366	99,282
INCOME TAX BENEFIT (PROVISION)	15,628	(28,579)
NET INCOME	43,994	70,703
Net income attributable to the noncontrolling interests	(871)	(13,501)
NET INCOME ATTRIBUTABLE TO SINCLAIR BROADCAST GROUP	\$43,123	\$57,202
Dividends declared per share	\$0.18	\$0.18
EARNINGS PER COMMON SHARE ATTRIBUTABLE TO SINCLAIR BROADCAST GROUP:		
Basic earnings per share	\$0.42	\$0.62
Diluted earnings per share	\$0.42	\$0.61
Weighted average common shares outstanding	101,899	92,630
Weighted average common and common equivalent shares outstanding	102,917	93,692

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

(a) See Revenue Recognition within Note 1. Nature of Operations and Summary of Significant Accounting Policies for a discussion of the adoption of the new accounting principles for revenue recognition.

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

	Three Months Ended March 31,	
	2018	2017
Net income	\$43,994	\$70,703
Comprehensive income	\$43,994	\$70,703
Comprehensive income attributable to the noncontrolling interests	(871)	(13,501)
Comprehensive income attributable to Sinclair Broadcast Group	\$43,123	\$57,202

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
 (in thousands) (Unaudited)

	Sinclair Broadcast Group Shareholders					Accumulated Deficit	Accumulated Other Comprehensive Loss	Noncontrolling Interests	Total Equity
	Class A Common Stock Shares	Class B Common Stock Values	Class B Common Stock Shares	Class B Common Stock Values	Additional Paid-In Capital				
BALANCE, December 31, 2016	64,558,207	\$ 646	25,670,684	\$ 257	\$ 843,691	\$(255,804)	\$(807)	\$(30,047)	\$557,936
Issuance of common stock, net of issuance costs	12,000,000	120	—	—	487,763	—	—	—	487,883
Dividends declared and paid on Class A and Class B Common Stock	—	—	—	—	—	(16,257)	—	—	(16,257)
Class A Common Stock issued pursuant to employee benefit plans	376,262	3	—	—	12,339	—	—	—	12,342
Distributions to noncontrolling interests, net	—	—	—	—	—	—	—	(15,708)	(15,708)
Net income	—	—	—	—	—	57,202	—	13,501	70,703
BALANCE, March 31, 2017	76,934,469	\$ 769	25,670,684	\$ 257	\$ 1,343,793	\$(214,859)	\$(807)	\$(32,254)	\$1,096,899

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
(In thousands) (Unaudited)

	Sinclair Broadcast Group Shareholders					Retained Earnings	Accumulated Other Comprehensive Loss	Noncontrolling Interests	Total Equity
	Class A Common Stock Shares	Class B Common Stock Values	Class B Common Stock Shares	Class B Common Stock Values	Additional Paid-In Capital				
BALANCE, December 31, 2017	76,071,145	\$ 761	25,670,684	\$ 257	\$ 1,320,298	\$ 248,845	\$ (1,423)	\$ (34,372)	\$ 1,534,366
Cumulative effect of adoption of new accounting standard	—	—	—	—	—	2,100	—	—	2,100
Dividends declared and paid on Class A and Class B Common Stock	—	—	—	—	—	(18,392)	—	—	(18,392)
Class A Common Stock issued pursuant to employee benefit plans	438,429	4	—	—	12,134	—	—	—	12,138
Distributions to noncontrolling interests, net	—	—	—	—	—	—	—	(2,663)	(2,663)
Net income	—	—	—	—	—	43,123	—	871	43,994
BALANCE, March 31, 2018	76,509,574	\$ 765	25,670,684	\$ 257	\$ 1,332,432	\$ 275,676	\$ (1,423)	\$ (36,164)	\$ 1,571,543

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)

	Three Months Ended March 31,	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$43,994	\$70,703
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation of property and equipment	27,325	23,981
Amortization of definite-lived intangible and other assets	43,605	45,554
Amortization of program contract costs and net realizable value adjustments	26,950	31,019
Loss on extinguishment of debt, non-cash portion	—	1,404
Stock-based compensation expense	6,956	7,571
Deferred tax benefit	(16,342)	(4,269)
Gain on asset disposition, net of impairment	(20,324)	(53,347)
Loss from equity and cost method investments	12,593	1,504
Change in assets and liabilities, net of acquisitions:		
Decrease in accounts receivable	26,504	1,543
Increase in prepaid expenses and other current assets	(18,353)	(5,539)
Decrease in accounts payable and accrued liabilities	(8,473)	(58,945)
Net change in net income taxes payable/receivable	241	32,513
Payments on program contracts payable	(28,492)	(28,600)
Other, net	4,759	4,550
Net cash flows from operating activities	100,943	69,642
CASH FLOWS (USED IN) FROM INVESTING ACTIVITIES:		
Acquisition of property and equipment	(22,219)	(20,774)
Acquisition of businesses, net of cash acquired	—	(8,000)
Proceeds from the sale of assets	49	195,149
Investments in equity and cost method investees	(7,750)	(3,080)
Distributions from equity and cost method investees	10,832	3,272
Other, net	(1,862)	(8,408)
Net cash flows (used in) from investing activities	(20,950)	158,159
CASH FLOWS (USED IN) FROM FINANCING ACTIVITIES:		
Proceeds from notes payable and commercial bank financing	363	163,089
Repayments of notes payable, commercial bank financing and capital leases	(16,950)	(284,422)
Net proceeds from the sale of Class A Common Stock	—	487,883
Dividends paid on Class A and Class B Common Stock	(18,392)	(16,257)
Other, net	(2,659)	(17,884)
Net cash flows (used in) from financing activities	(37,638)	332,409
NET INCREASE IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH	42,355	560,210
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH, beginning of period	995,940	260,184
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH, end of period	\$ 1,038,295	\$ 820,394

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. (the Company) is a diversified television broadcasting company with national reach and 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 March 31, 2018, 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 191 stations in 89 markets. These stations broadcast 603 channels as of March 31, 2018. For the purpose of this report, these 191 stations and 603 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 months ended March 31, 2018 and 2017 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, 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, 2017 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.

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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. Based on the terms of the agreements and the significance of our investment in the stations, we are the primary beneficiary when, 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 we absorb losses and returns that would be considered significant to the VIEs. The fees paid between us and the licensees pursuant to these arrangements are eliminated in consolidation. Several of these VIEs are owned by a related party, Cunningham Broadcasting Corporation (Cunningham). See Note 7. Related Person Transactions for more information about the arrangements with Cunningham. See Changes in the Rules of Television Ownership, Joint Sales Agreements, Retransmission Consent Negotiations, and National Ownership Cap under Note 4. Commitments and Contingencies for discussion of recent changes in Federal Communications Commission (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 were as follows (in thousands):

	March 31, 2018	December 31, 2017
ASSETS		
Current assets:		
Accounts receivable	\$ 18,764	\$ 19,566
Other current assets	5,672	8,937
Total current assets	24,436	28,503
Assets held for sale	546	—
Program contract costs, less current portion	469	822
Property and equipment, net	4,242	6,215
Goodwill and indefinite-lived intangible assets	15,039	15,064
Definite-lived intangible assets, net	72,186	74,442
Other assets	5,601	5,601
Total assets	\$ 122,519	\$ 130,647
LIABILITIES		
Current liabilities:		
Other current liabilities	\$ 20,164	\$ 23,564

Notes payable, capital leases and commercial bank financing, less current portion 21,380