SINCLAIR BROADCAST GROUP INC
Form 10-Q
November 08, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q
(Mark One)

ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2016

OR

o 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 x No o

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 x No o

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 x Accelerated filer o Non-accelerated filer o Smaller reporting company o

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

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 November 4, 2016
Class A Common Stock	64,706,034
Class B Common Stock	25,928,357

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SINCLAIR BROADCAST GROUP, INC.

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

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

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

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

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

	Sinclair Broadcast Group Shareholders								
	Class A Common Stock		Class B Common Stock		Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Noncontrolling Interests	Total Equity (Deficit)
	Shares	Values	Shares	Values					
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	—	—	—	—	—	(47,104)	—	—	(47,104)
Repurchases of Class A Common Stock	(1,107,887)	(11)	—	—	(28,812)	—	—	—	(28,823)
Class A Common Stock issued pursuant to employee benefit plans	291,911	3	—	—	10,616	—	—	—	10,619
Tax benefit on share based awards	—	—	—	—	703	—	—	—	703
Distributions to noncontrolling interests, net	—	—	—	—	—	—	—	(6,655)	(6,655)
Other comprehensive income	—	—	—	—	—	—	178	—	178
Issuance of subsidiary stock awards	—	—	—	—	—	—	—	1,731	1,731
Net income	—	—	—	—	—	113,324	—	1,945	115,269
BALANCE, September 30, 2015	68,762,923	$ 688	25,928,357	$ 259	$ 961,709	$ (479,600)	$ (6,277)	$ (25,518)	$ 451,261

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

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

	Sinclair Broadcast Group Shareholders								
	Class A Common Stock		Class B Common Stock		Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Noncontrolling Interests	Total Equity (Deficit)
	Shares	Values	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	—	—	—	—	—	(49,667)	—	—	(49,667)
Repurchases of Class A Common Stock	(3,610,201)	(37)	—	—	(101,127)	—	—	—	(101,164)
Class A Common Stock issued pursuant to employee benefit plans	364,319	4	—	—	14,865	—	—	—	14,869
Distributions to noncontrolling interests, net	—	—	—	—	—	—	—	(8,363)	(8,363)
Issuance of subsidiary stock awards	—	—	—	—	—	—	—	787	787
Net income	—	—	—	—	—	124,404	—	3,858	128,262
BALANCE, September 30, 2016	65,546,601	$655	25,928,357	$259	$876,895	$(360,459)	$(834)	$(29,850)	$486,666

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

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

	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES:		
Net income	$128,262	$115,269
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation of property and equipment	74,330	75,938
Amortization of definite-lived intangible and other assets	137,197	119,439
Amortization of program contract costs and net realizable value adjustments	96,722	90,014
Loss on extinguishment of debt, non-cash portion	3,875	—
Stock-based compensation expense	13,470	14,778
Deferred tax benefit	6,631	(19,623)
Change in assets and liabilities, net of acquisitions:		
(Increase) decrease in accounts receivable	(77,118)	563
Increase in prepaid expenses and other current assets	(4,344)	(11,643)
Increase in accounts payable and accrued liabilities	36,286	8,128
Net change in net income taxes payable/receivable	(8,411)	5,623
Payments on program contracts payable	(84,625)	(82,594)
Other, net	7,985	(2,171)
Net cash flows from operating activities	330,260	313,721
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES:		
Acquisition of property and equipment	(68,601)	(72,476)
Acquisition of businesses, net of cash acquired	(425,856)	(15,514)
Purchase of alarm monitoring contracts	(29,143)	(31,340)
Proceeds from sale of assets	16,396	23,650
Investments in equity and cost method investees	(34,224)	(43,068)
Loans to affiliates	(19,500)	—
Other, net	3,401	11,215
Net cash flows used in investing activities	(557,527)	(127,533)
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES:		
Proceeds from notes payable and commercial bank financing	1,011,312	379,481
Repayments of notes payable, commercial bank financing and capital leases	(653,987)	(375,104)
Dividends paid on Class A and Class B Common Stock	(49,667)	(47,104)
Repurchase of outstanding Class A Common Stock	(101,164)	(28,823)
Payments for deferred financing cost	(15,598)	(3,847)
Other, net	(9,056)	(9,084)
Net cash flows from (used in) financing activities	181,840	(84,481)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(45,427)	101,707
CASH AND CASH EQUIVALENTS, beginning of period	149,972	17,682
CASH AND CASH EQUIVALENTS, end of period	$104,545	$119,389

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 September 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 482 channels, as of September 30, 2016. For the purpose of this report, these 173 stations and 482 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 nine months ended September 30, 2016 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 September 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 7. Related Person Transactions for more information about the arrangements with Cunningham. The net revenues of the stations which we consolidate were $79.1 million and $227.4 million for the three and nine months ended September 30, 2016, and $71 million and $207.6 million for the three and nine months ended September 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, Retransmission Consent Negotiations, and National Ownership Cap 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):

	September 30, 2016		December 31, 2015	
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents	$	490	$	490
Accounts receivable	24,945		21,719	
Current portion of program contract costs	14,895		13,287	
Prepaid expenses and other current assets	318		331	
Total current assets	40,648		35,827	
PROGRAM CONTRACT COSTS, less current portion	3,078		4,541	
PROPERTY AND EQUIPMENT, net	3,301		7,609	
GOODWILL	791		787	
INDEFINITE-LIVED INTANGIBLE ASSETS	15,684		17,599	
DEFINITE-LIVED INTANGIBLE ASSETS, net	80,693		79,086	
OTHER ASSETS	6,924		6,924	
Total assets	$	151,119	$	152,373
LIABILITIES				
CURRENT LIABILITIES:				
Accounts payable and accrued liabilities	$	1,112	$	1,240
Current portion of notes payable, capital leases and commercial bank financing	3,710		3,687	

Current portion of program contracts payable	16,573	12,627
Total current liabilities	21,395	17,554
LONG-TERM LIABILITIES:		
Notes payable, capital leases and commercial bank financing, less current portion	21,944	24,594
Program contracts payable, less current portion	14,036	13,679
Other long-term liabilities	9,364	8,067
Total liabilities	$ 66,739	$ 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 and certain JSAs 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 and certain JSAs as of September 30, 2016 and December 31, 2015, which are excluded from liabilities above, were $40.0 million and $37.6 million, respectively. The total capital lease liabilities, net of capital lease assets, excluded from the above were $4.5 million for both September 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 $77.8 million and $72.5 million as of September 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 September 30, 2016 and December 31, 2015 are $119.9 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 $1.4 million and $2.8 million for the three and nine months ended September 30, 2016, and income of $0.7 million and $6.5 million for the three and nine months ended September 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 will be adopting this guidance beginning December 31, 2016, which will involve adding policies and procedures around our assessments to continue as a going concern.

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 new guidance 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 nine months ended September 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.

In August 2016, the FASB issued new guidance related to the classification of certain cash receipts and cash payments. The new standard, which includes eight specific cash flow issues with the objective of reducing the existing diversity in practice as to how cash receipts and cash payments are represented in the statement of cash flow. The new standard is effective for fiscal year beginning after December 15, 2017, including the interim periods within that reporting period. Early adoption is permitted. We are currently evaluating the impact of this guidance on our consolidated financial statements.

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 nine months ended September 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 nine months ended September 30, 2016 approximated the statutory rate. Our effective income tax rate for the three and nine months ended September 30, 2015 was less than the statutory rate primarily due to 1) a reduction in liability for unrecognized tax benefits of $5.7 million, in the third quarter of 2015, as a result of statute of limitations expiration and 2) a $3.3 million adjustment to the income tax provision upon finalization of the 2014 federal income tax return, primarily related to greater than originally projected available income tax deductions and credits.

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Share Repurchase Program

On March 20, 2014, the Board of Directors authorized a $150.0 million share repurchase authorization. On September 6, 2016 the Board of Directors authorized an additional $150.0 million share repurchase authorization. There is no expiration date and currently, management has no plans to terminate this program. For the three months ended September 30, 2016, we purchased approximately 3.2 million shares of Class A Common Stock for $90.0 million. For the nine months ended September 30, 2016, we purchased approximately 3.6 million shares of Class A Common Stock for $101.2 million. As of September 30, 2016, the total remaining authorization was $154.3 million. In October and November 2016, we repurchased an additional 1.1 million shares of Class A Common Stock for $31.1 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 $9.2 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 6. 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	272,686
Indefinite-lived intangible assets	23,400
Other assets	619
Accounts payable and accrued liabilities	(7,414)
Capital leases	(115)
Deferred tax liability	(20,056)
Other long term liabilities	(1,669)
Fair value of identifiable net assets acquired	302,673
Goodwill	56,492
Total	$359,165

The preliminary 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 September 30, 2016, we made certain measurement period adjustments to the initial purchase accounting: an increase to definite-lived intangible assets of $45.6 million, a decrease to indefinite-lived intangible assets of $1.5 million, a decrease to deferred taxes assets of $16.1 million resulting in a net deferred tax liability, a decrease to goodwill of $25.3 million, and an increase to amortization of $1.1 million during the three months ended September 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 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	$269,300
Other intangible assets	3,386
Fair value of identifiable definite-lived intangible assets acquired	$272,686

In connection with the acquisitions, for the nine months ended September 30, 2016, we incurred a total of $0.2 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. For the three months ended September 30, 2016, net revenues and operating income of Tennis were $27.4 million and $1.3 million, respectively. For the nine months ended September 30, 2016, net revenues and an operating loss of Tennis were $62.5 million and $9.6 million, respectively.

Pro Forma Information

The following table sets forth unaudited results of operations for the three and nine months ended September 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 September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Total revenues	$693,835	$571,437	$1,953,750	$1,678,800
Net Income	$79,019	$40,911	$127,222	$107,312
Net Income attributable to Sinclair Broadcast Group	$50,845	$40,132	$123,364	$105,367
Basic earnings per share attributable to Sinclair Broadcast Group	$0.54	$0.42	$1.30	$1.11
Diluted earnings per share attributable to Sinclair Broadcast Group	$0.54	$0.42	$1.29	$1.10

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 nine months ended September 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 certain television stations, we simultaneously sold broadcast assets of certain stations. During the three and nine months ended September 30, 2016, we recognized a gain on sale of those broadcast assets of $1.8 million and $2.6 million, respectively.

3. NOTES PAYABLE AND COMMERCIAL BANK FINANCING:

5.125% Senior Notes, due 2027

On August 30, 2016, we issued $400.0 million of senior unsecured notes, which bear interest at a rate of 5.125% per annum and mature on February 15, 2027 (the 5.125% Notes), pursuant to an indenture dated August 30, 2016 (the 5.125% Indenture). The 5.125% Notes were priced at 100% of their par value and interest is payable semi-annually on February 15 and August 15, commencing on February15, 2017. Prior to August 15, 2021, we may redeem the 5.125% 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 5.125% Notes plus accrued and unpaid interest, if any, to the date of redemption, plus a “make-whole” premium as set forth in the 5.125% Indenture. In addition, on or prior to August 15, 2019, we may redeem up to 35% of the 5.125% 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 5.125% Notes may require us to repurchase some or all of the notes. There are no registration rights associated with the 5.125% Notes. The net proceeds of the 5.125% Notes were used to redeem

$350.0 million aggregate principal amount of STG's 6.375% senior unsecured notes due 2021 (the 6.375% Notes) and for general corporate purposes. The redemption price, including the outstanding principal amount of the 6.375% Notes, accrued and unpaid interest, and a make-whole premium, totaled $377.2 million. We recorded a loss on extinguishment of debt of $23.7 million related to this redemption. We incurred $6.6 million of deferred financing costs in connection with the issuance of the 5.125% Notes as of September 30, 2016.

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5.875% Senior Notes, due 2026

On March 23, 2016, we issued $350.0 million of 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.

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 were 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. We incurred approximately $2.6 million of financing costs in connection with the amendment, of which $0.3 million was expensed and the remaining $2.3 million was capitalized as deferred financing cost as of September 30, 2016.

As of September 30, 2016 and December 31, 2015, there was no outstanding balance under our revolving credit facility. As of September 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. The FCC has undertaken an investigation in response to a complaint it received alleging possible violations of the FCC’s sponsorship identification rules by the Company and certain of its subsidiaries. We cannot predict the outcome of any potential FCC action related to this matter but it is possible that such action could include fines and/or compliance programs.

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

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 August, 2016, the FCC completed both its 2010 and 2014 quadrennial reviews of its media ownership rules and issued an order which left most of the existing multiple ownership rules intact, but amended the 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 provides that JSAs that existed prior to March 31, 2014, may remain in place until October 1, 2025, at which point they must be terminated, amended or otherwise come into compliance with the rules. In addition, these "grandfathered" JSAs may be transferred or assigned without losing grandfathering status. These new rules 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 $16.0 million and $11.5 million for the three months ended September 30, 2016 and 2015 and $42.5 million and $34.2 million for the nine months ended September 30, 2016 and 2015, respectively.

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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 2015 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 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 which was paid in September 2016. In addition, pursuant to the terms of the consent decree, the Company agreed to be subject to ongoing compliance monitoring by the FCC 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.

On September 6, 2016, the FCC released an order eliminating the UHF discount. The UHF discount allowed television station owners to discount the coverage of UHF stations when calculating compliance with the FCC’s national ownership cap, which prohibits a single entity from owning television stations that reach, in total, more than 39% of all the television households in the nation. All but 28 of the stations we own and operate, or to which we provide programming services are UHF. As a result of the elimination of the UHF discount, counting all our present stations and pending transactions, we reach over 37% of U.S. households. The changes to the national ownership cap could limit our future ability to make television station acquisitions.

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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 September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Income (Numerator)				
Net Income	$52,033	$44,034	$128,262	$115,269
Net income attributable to noncontrolling interests	(1,188)	(779)	(3,858)	(1,945)
Numerator for diluted earnings per common share available to common shareholders	$50,845	$43,255	$124,404	$113,324
Shares (Denominator)				
Weighted-average common shares outstanding	93,948	95,002	94,595	95,146
Dilutive effect of stock-settled appreciation rights, restricted stock awards and outstanding stock options	818	690	870	691
Weighted-average common and common equivalent shares outstanding	94,766	95,692	95,465	95,837

There were 525,000 shares for the three and nine months ended September 30, 2016, and 200,000 shares for the three and nine months ended September 30, 2015 which had an anti-dilutive effect on the equivalent shares outstanding and therefore excluded from the diluted effect above.

6. 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 $226.5 million and $226.0 million of intercompany loans between the broadcast segment, other, and corporate as of September 30, 2016 and 2015, respectively. We had $6.1 million in intercompany interest expense related to intercompany loans between the broadcast segment, other, and corporate for the three months ended September 30, 2016 and 2015. We had $18.3 million and $16.9 million in intercompany interest expense for the nine months ended September 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 September 30, 2016	Broadcast	Other	Corporate	Consolidated
Revenue	$635,559	$58,276	$ —	$ 693,835
Depreciation of property and equipment	24,195	1,425	266	25,886
Amortization of definite-lived intangible assets and other assets	38,717	9,090	—	47,807
Amortization of program contract costs and net realizable value adjustments	32,441	—	—	32,441
General and administrative overhead expenses	17,530	247	1,275	19,052
Research and development	—	745	—	745
Operating income (loss)	158,666	(3,077)	(1,595)	153,994
Interest expense	1,404	1,664	50,420	53,488
Income from equity and cost method investments	—	611	812	1,423
Assets	4,901,549	825,996	138,643	5,866,188

For the three months ended September 30, 2015	Broadcast	Other	Corporate	Consolidated
Revenue	$525,529	$22,875	$ —	$ 548,404
Depreciation of property and equipment	24,489	708	279	25,476
Amortization of definite-lived intangible assets and other assets	37,601	2,413	—	40,014
Amortization of program contract costs and net realizable value adjustments	29,841	—	—	29,841
General and administrative overhead expenses	14,378	1,087	999	16,464
Research and development	—	4,803	—	4,803
Operating income (loss)	109,231	(7,653)	(1,972)	99,606
Interest expense	—	1,305	47,261	48,566
Income from equity and cost method investments	—	252	—	252

For the nine months ended September 30, 2016	Broadcast	Other	Corporate	Consolidated
Revenue	1,790,561	148,697	—	1,939,258
Depreciation of property and equipment	69,469	4,063	798	74,330
Amortization of definite-lived intangible assets and other assets	117,038	20,159	—	137,197
Amortization of program contract costs and net realizable value adjustments	96,722	—	—	96,722
General and administrative overhead expenses	50,320	1,075	3,277	54,672
Research and development	—	3,055	—	3,055
Operating income (loss)	402,236	(28,699)	(4,130)	369,407
Interest expense	4,297	4,695	147,827	156,819
Income from equity and cost method investments	—	414	2,375	2,789

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For the nine months ended September 30, 2015	Broadcast	Other	Corporate	Consolidated
Revenue	$1,542,943	$64,403	$ —	$ 1,607,346
Depreciation of property and equipment	73,028	2,073	837	75,938
Amortization of definite-lived intangible assets and other assets	112,724	6,715	—	119,439
Amortization of program contract costs and net realizable value adjustments	90,014	—	—	90,014
General and administrative overhead expenses	40,637	2,611	3,437	46,685
Research and development	—	11,555	—	11,555
Operating income (loss)	323,336	(20,498)	(4,345)	298,493
Interest expense	—	3,541	139,337	142,878
Income from equity and cost method investments	—	5,405	—	5,405

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7. 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 for both the three months ended September 30, 2016 and 2015, and $3.8 million and $3.9 million for nine months ended September 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. provides tower space without charge.

Charter Aircraft. We lease aircraft owned by certain controlling shareholders, including a new lease agreement as of February 2016 for the term of thirty months and will be renewed thereafter for successive terms of twelve months. For all leases, we incurred expenses of $0.3 million and $0.4 million for the three months ended September 30, 2016 and 2015, and $1.0 million for both the nine months ended September 30, 2016 and 2015, respectively.

Cunningham Broadcasting Corporation

Cunningham owns a portfolio of television stations including: WNUV-TV Baltimore, Maryland; WRGT-TV Dayton, Ohio; WVH-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). Certain of our stations provide services to these Cunningham Stations pursuant to LMAs or JSAs and SSAs. See Note 1. Nature of Operations and Summary of Significant Accounting Policies, for further discussion of the scope of services provided under these types of arrangements.

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.

The services provided to WNUV-TV, WMYA-TV, WTTE-TV, WRGT-TV and WVAH-TV are governed by a master agreement which 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. Pursuant to the terms of this agreement we are obligated to pay Cunningham an annual 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 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 September 30, 2016 was approximately $53.6 million. Additionally, we provide services to WDBB-TV pursuant to an LMA, which expires April 22, 2025. We paid Cunningham under these agreements, $2.1 million and $2.1 million for the three months ended September 30, 2016 and 2015, respectively and $6.6 million and $7.8 million for nine months ended September 30, 2016 and 2015, respectively.

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. We earned $1.4 million and $1.5 million from the services we performed for these stations for the three months ended September 30, 2016 and 2015, respectively, and $3.9 million and $4.2 million for the nine months ended September 30, 2016 and 2015, respectively.

As we consolidate the licensees as VIEs, the amounts we earn or pay 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 the Cunningham Stations include $29.4 million and $25.8 million for the three months ended September 30, 2016 and 2015, respectively, and $83.8 million and $74.8 million for the nine months ended September 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 that expires in April 2019, 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 the equipment. Also, in August 2016, we entered into an agreement, expiring October 2021, with Cunningham to provide a news share service with their station in Johnstown, PA beginning in October 2016 for an annual fee of $1.0 million per year.

Atlantic Automotive Corporation

We sell advertising time to 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 $0.3 million and $0.1 million for the three months ended September 30, 2016 and 2015, and $0.6 million and $0.3 million for the nine months ended September 30, 2016 and 2015, respectively. Additionally, Atlantic Automotive leases office space owned by one of our consolidated real estate ventures in Towson, Maryland. Atlantic Automotive paid $0.3 million in rent during both the three months ended September 30, 2016 and 2015, and $0.8 million and $0.9 million for the nine months ended September 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 September 30, 2016 and 2015, and $0.5 million for both the nine months ended September 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 September 30, 2016 and 2015, and $0.2 million and $0.3 million for the nine months ended September 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 nine months ended September 30, 2016 and 2015, respectively.

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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 September 30, 2016		As of December 31, 2015	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Level 2:				
6.375% Senior Unsecured Notes due 2021 (a)	$ —	$ —	$ 350,000	$ 367,325
6.125% Senior Unsecured Notes due 2022	500,000	526,910	500,000	512,500
5.875% Senior Unsecured Notes due 2026 (b)	350,000	364,000	—	—
5.625% Senior Unsecured Notes due 2024	550,000	563,750	550,000	539,000
5.375% Senior Unsecured Notes due 2021	600,000	623,250	600,000	605,658
5.125% Senior Unsecured Notes due 2027 (c)	400,000	392,356	—	—
Term Loan A	282,573	283,280	313,620	308,916
Term Loan B	1,366,117	1,378,636	1,376,007	1,365,461
Debt of variable interest entities	24,069	24,069	26,682	26,682
Debt of other operating divisions	123,599	123,599	120,969	120,969

(a) In August 2016, we redeemed our 6.375% Senior Unsecured Notes due 2021. See Note 3. Notes Payable and Commercial Bank Financing, for additional information.

(b) In March 2016, we issued $350 million in senior unsecured notes, which bear interest at a rate of 5.875% per annum and maturing in 2026. See Note 3. Notes Payable and Commercial Bank Financing, for additional information.

(c) In August 2016, we issued $400 million in senior unsecured notes, which bear interest at a rate of 5.125% per annum and maturing in 2027. See Note 3. Notes Payable and Commercial Bank Financing, for additional information.

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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, 5.875% Notes, 5.125% Notes, and until they were redeemed, the 6.375% Notes. Our Class A Common Stock and Class B Common Stock as of September 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, 5.875% Notes, 6.125% Notes, and until they were redeemed, the 6.375% Notes. As of September 30, 2016, our consolidated total debt, net of deferred financing costs and debt discounts, of $4,206.3 million included $4,078.7 million related to STG and its subsidiaries of which SBG guaranteed $4,030.9 million.
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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 SEPTEMBER 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	$ —	$ 81,671	$ 4,550	$ 18,324	$ —	$ 104,545
Accounts receivable	—	—	483,686	37,237	(1,261)	519,662
Other current assets	3,371	6,457	132,250	27,434	(3,629)	165,883
Total current assets	3,371	88,128	620,486	82,995	(4,890)	790,090
Property and equipment, net	2,086	17,710	566,633	130,309	(3,650)	713,088
Investment in consolidated subsidiaries	483,523	3,696,504	4,180	—	(4,184,207)	—
Goodwill	—	—	1,985,299	4,279	—	1,989,578
Indefinite-lived intangible assets	—	—	137,416	15,709	—	153,125
Definite-lived intangible assets	—	—	1,816,553	227,351	(60,578)	1,983,326
Other long-term assets	52,116	782,850	105,247	160,180	(863,412)	236,981
Total assets	$ 541,096	$ 4,585,192	$ 5,235,814	$ 620,823	$ (5,116,737)	$ 5,866,188
Accounts payable and accrued liabilities	$ 102	$ 55,484	$ 211,362	$ 28,427	$ (4,162)	$ 291,213
Current portion of long-term debt	—	55,500	1,803	107,935	—	165,238
Current portion of affiliate long-term debt	1,804	—	1,569	2,258	(2,032)	3,599
Other current liabilities	—	—	123,020	16,675	—	139,695
Total current liabilities	1,906	110,984	337,754	155,295		