

SINCLAIR BROADCAST GROUP INC

Form 10-K

March 02, 2015

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

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

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2014

OR

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

FOR THE TRANSITION PERIOD FROM TO .

COMMISSION FILE NUMBER: 000-26076

SINCLAIR BROADCAST GROUP, INC.

(Exact name of Registrant as specified in its charter)

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Maryland
(State or other jurisdiction of
incorporation or organization)

52-1494660
(I.R.S. Employer Identification No.)

10706 Beaver Dam Road

Hunt Valley, MD 21030

(Address of principal executive offices)

(410) 568-1500

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Class A Common Stock, par value \$ 0.01 per share	The NASDAQ Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 Website, 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 files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in

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Part III of this Form 10-K or any amendment to this Form 10-K.

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 the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

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 Act). Yes No

Based on the closing sales price of \$34.75 per share as of June 30, 2014, the aggregate market value of the voting and non-voting common equity of the Registrant held by non-affiliates was approximately \$2,471.2 million.

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

Title of each class	Number of shares outstanding as of
Class A Common Stock	February 20, 2015 69,314,960
Class B Common Stock	25,928,357

Documents Incorporated by Reference - Portions of our definitive Proxy Statement relating to our 2015 Annual Meeting of Shareholders are incorporated by reference into Part III of this Form 10-K. We anticipate that our Proxy Statement will be filed with the Securities and Exchange Commission within 120 days after the end of our fiscal year ended December 31, 2014.

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FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 2014

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FORWARD-LOOKING STATEMENTS

This report includes or incorporates forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act), and the U.S. Private Securities Litigation Reform Act of 1995. We have based these forward-looking statements on our current expectations and projections about future events. These forward-looking statements are subject to risks, uncertainties and assumptions about us, including, among other things, the following risks:

General risks

- the impact of changes in national and regional economies and credit and capital markets;
- consumer confidence;
- the potential impact of changes in tax law;
- the activities of our competitors;
- terrorist acts of violence or war and other geopolitical events;
- natural disasters that impact our advertisers and our stations;

Industry risks

- the business conditions of our advertisers particularly in the automotive and service industries;
- competition with other broadcast television stations, radio stations, multi-channel video programming distributors (MVPDs), internet and broadband content providers such and other print and media outlets serving in the same markets;
- availability and cost of programming and the continued volatility of networks and syndicators that provide us with programming content;
- our relationships with networks and their strategies to distribute their programming via means other than their local television affiliates, such as over-the-top content;
- the effects of the Federal Communications Commission's (FCC's) National Broadband Plan and the auctioning and potential reallocation of our broadcasting spectrum;
- the effects of governmental regulation of broadcasting or changes in those regulations and court actions interpreting those regulations, including ownership regulations (including regulations relating to Joints Sales Agreements (JSA) and Shared Services Agreements

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(SSA)), closed captioning rules, indecency regulations, retransmission fee regulations and political or other advertising restrictions;

- labor disputes and legislation and other union activity associated with film, acting, writing and other guilds and professional sports leagues;
- the broadcasting community's ability to create and adopt a new transmission standard, as well as viable mobile digital broadcast television (mobile DTV) strategy and platform and the consumer's appetite for mobile television;
- the operation of low power devices in the broadcast spectrum, which could interfere with our broadcast signals;
- the impact of reverse network compensation payments charged by networks pursuant to their affiliation agreements with broadcasters requiring compensation for network programming;
- the effects of new ratings system technologies including people meters and set-top boxes, and the ability of such technologies to be a reliable standard that can be used by advertisers;
- the impact of new FCC rules requiring broadcast stations to publish, among other information, political advertising rates online;
- changes in the makeup of the population in the areas where stations are located;

Risks specific to us

- the effectiveness of our management;
- our ability to attract and maintain local and national advertising;
- our ability to service our debt obligations and operate our business under restrictions contained in our financing agreements;
- our ability to successfully renegotiate retransmission consent agreements;
- our ability to renew our FCC licenses;
- our ability to obtain FCC approval for any future acquisitions, as well as, in certain cases, customary antitrust clearance for any future acquisitions;
- our ability to successfully integrate any acquired businesses;
- our ability to maintain our affiliation and programming service agreements with our networks and program service providers and at renewal, to successfully negotiate these agreements with favorable terms;

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- our ability to effectively respond to technology affecting our industry and to increasing competition from other media providers;
- the popularity of syndicated programming we purchase and network programming that we air;
- the strength of ratings for our local news broadcasts including our news sharing arrangements;
- the successful execution of our multi-channel broadcasting initiatives including mobile DTV;
- the results of prior year tax audits by taxing authorities; and
- the success of our digital initiatives in a competitive environment.

Other matters set forth in this report and other reports filed with the Securities and Exchange Commission (SEC), including the *Risk Factors* set forth in Item 1A of this report may also cause actual results in the future to differ materially from those described in the forward-looking statements. However, additional factors and risks not currently known to us or that we currently deem immaterial may also cause actual results in the future to differ materially from those described in the forward-looking statements. You are cautioned not to place undue reliance on any forward-looking statements, which speak only as of the date on which they are made. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. In light of these risks, uncertainties and assumptions, events described in the forward-looking statements discussed in this report might not occur.

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PART I

ITEM 1. BUSINESS

We are a diversified television broadcasting company that owns or provides certain programming, operating or sales services to more television stations than most other commercial broadcasting groups in the United States. Our broadcast group is a single reportable segment for accounting purposes. We own, provide programming and operating services pursuant to local marketing agreements (LMAs) or provide sales services and other non-programming operating services pursuant to contracts to 164 stations in 79 markets. These stations broadcast 373 channels, including 211 channels affiliated with primary networks or program service providers comprised of: FOX (46), ABC (33), CBS (29), NBC (21), CW (44), MNT (33), and Univision (5). The other 162 channels broadcast programming from This TV, Me TV, GetTV, Grit, Weather Radar, Weather Nation, Live Well Network, Antenna TV, Bounce Network, Heartland, Zuus Country Network, Retro TV, Estrella TV, MundoFox, Inmigrante TV, Azteca, and Telemundo, and one channel broadcasts independent programming. For the purpose of this report, these channels are referred to as our stations. Refer to our *Markets and Stations* table later in this Item 1 for more information.

We broadcast free over-the-air programming to television viewing audiences in the communities we serve through our local television stations. The programming that we provide on our primary station channels consists of network provided programs, news produced locally, local sporting events, programming from program service arrangements, syndicated entertainment programs and other locally produced programs such as the American Sports Network, our collegiate sports initiative launched in 2014, and Ring of Honor wrestling. We produce news at 102 stations in 75 markets, including one station where we produce news pursuant to a local news sharing arrangement for a competitive station in that market. We have 20 stations which have local news sharing arrangements with a competitive station in that market that produces the news aired on our station. We provide live local sporting events on many of our stations by acquiring the local television broadcast rights for these events. Additionally, we purchase and barter for popular syndicated programming from third party television producers. See *Operating Strategy* later in this *Item 1* for more information regarding the programming we provide.

Our primary source of revenue is the sale of commercial inventory on our television stations to our advertising customers. Our objective is to meet the needs of our advertising customers by delivering significant audiences in key demographics. Our strategy is to achieve this objective by providing quality local news programming and popular network and syndicated programs to our viewing audience. We attract most of our national television advertisers through national marketing representation firms which have offices in New York City, Los Angeles, Chicago and Atlanta. Our local television advertisers are attracted through the use of a local sales force at each of our television stations, which is comprised of approximately 750 sales account executives and 90 local sales managers company-wide.

We also earn revenue from our retransmission consent agreements through payments from MVPDs in our markets. The MVPDs are local cable companies, satellite television and local telecommunication video providers. The revenues primarily represent payments from the MVPDs for access to our broadcast signal and is typically based on the number of subscribers they have.

Our operating results are subject to cyclical fluctuations from political advertising. Political spending has been significantly higher in the even-number years due to the cyclicity of political elections. In addition, every four years, political spending is typically elevated further due to the advertising preceding the presidential election. Because of the political election cyclicity, there has been a significant difference in our operating results when comparing even-numbered years performance to the odd numbered years performance. Additionally, our operating results are impacted by the number and importance of individual political races and issues discussed. We believe political advertising will continue to be a strong advertising category in our industry, particularly in light of the 2010 United States Supreme Court decision in *Citizens United v. Federal Election Commission* in which the Supreme Court ruled that federal laws limiting issue advocacy by for-profit and non-profit

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corporations was unconstitutional. With increased spending by Political Action Committees (PACs), including so-called Super PACs and as political-activism around social, political, economic and environmental causes continues to draw attention, political advertising levels may increase further.

We continue to believe the prospects for a viable mobile television service can occur because of the significant advantages over the air, point to multipoint delivery has compared to the limitations and expenses the consumer is facing through the transitional cell phone delivery option. Television broadcasters have the potential capability of delivering significantly greater video and data at a fraction of the cost of the existing carrier network. We believe a change to the existing mobile broadcast standard to a standard that is comparable to that used in several other parts of the world is essential. We cannot predict at this time how or if any change to the current US mobile standard will take place.

We have one reportable operating segment: broadcast. Our broadcast segment is comprised of all of our television stations. We also earn revenues from sign design and fabrication, regional security alarm operating and bulk acquisitions, manufacturing and

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service of broadcasting antennas and transmitters, real estate ventures and a wrestling programming franchise, which we refer to as our Other Operating Divisions. Corporate and unallocated expenses primarily include our costs to operate as a public company and to operate our corporate headquarters location. Our Other Operating Divisions and Corporate are not reportable segments. See *Note 14. Segment Data* for more information regarding our operating segments.

We are a Maryland corporation formed in 1986. Our principal offices are located at 10706 Beaver Dam Road, Hunt Valley, Maryland 21030. Our telephone number is (410) 568-1500 and our website address is www.sbg.net. The information contained on, or accessible through, our website is not part of this annual report on Form 10-K and is not incorporated herein by reference.

TELEVISION BROADCASTING*Markets and Stations*

As of December 31, 2014, we own and operate or provide programming and/or sales and other shared services to television stations in the following 79 markets:

Market	Market Rank (a)	Num. of Channels Total/ (Primary)(d)	Stations(e)	Network Affiliation(f)	Network Affiliation Expiration(b)	Station Rank in Market (c)
Washington, DC	8	3(1)	WJLA	ABC	12/31/2017	2 of 8
Seattle /Tacoma, WA	14	5(2)	KOMO KUNS	ABC Univision	8/31/2019 12/31/2014	3 of 10 N/A
Minneapolis, MN	15	3(1)	WUCW	CW	8/31/2016	5 of 7
St. Louis, MO	21	3(1)				