SINCLAIR BROADCAST GROUP INC
Form 10-K
March 16, 2006

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

(mark one)

FORM 10-K

ý	**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934** **FOR THE FISCAL YEAR ENDED DECEMBER 31, 2005**

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	**52-1494660**
(State or other jurisdiction of incorporation or organization)	(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: **None**

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

Class A Common Stock, par value $ 0.01 per share

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

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 o No ý

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 ý No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K 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 Part III of this Form 10-K or any amendment to this Form 10-K. o

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

Large accelerated filer o Accelerated filer ý Non-accelerated filer o

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

Based on the closing sales price of $9.08 per share as of June 30, 2005, the aggregate market value of the voting and non-voting common equity of the Registrant held by non-affiliates was approximately $421.3 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 March 9, 2006**
Class A Common Stock	47,321,012
Class B Common Stock	38,348,331

Documents Incorporated by Reference - Portions of our definitive Proxy Statement relating to our 2006 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, 2005.

SINCLAIR BROADCAST GROUP, INC.

FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 2005

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FORWARD-LOOKING STATEMENTS

This report includes or incorporates forward-looking statements within the meaning of 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;

terrorist acts of violence or war and other geopolitical events;

the activities of our competitors;

Industry risks

the business conditions of our advertisers;

competition with other broadcast television stations, radio stations, satellite television providers, internet content providers, cable system operators and telecommunication providers serving in the same markets;

availability and cost of programming;

the effects of governmental regulation of broadcasting or changes in those regulations and court actions interpreting those regulations, including ownership regulations, indecency regulations, political advertising restrictions and regulations regarding the transition from analog to digital over-the-air broadcasting;

the timely transition of digital television over analog by the viewing public;

the continued viability of networks and syndicators that provide us with programming content;

Risks specific to Sinclair Broadcast Group

the effectiveness of our management;

our ability to attract and maintain local and national advertising;

the popularity of syndicated programming we purchase and network programming that we air;

the strength of ratings for our news broadcasts;

our ability to service our outstanding debt;

changes in the makeup of the population in the areas where our stations are located;

changes in local regulations in the areas where our stations are located;

successful integration of outsourcing agreements;

our ability to maintain our affiliation agreements with the relevant networks; and

FCC license renewals.

Other matters set forth in this report, including the *Risk Factors* set forth in Item 1A of this report and/or in the documents incorporated by reference, may also cause actual results in the future to differ materially from those described in the forward-looking statements. 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, the forward-looking statements discussed in this report might not occur.

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 any other commercial broadcasting group in the United States. We currently own, provide programming and operating services pursuant to local marketing agreements (LMAs) or provide (or are provided) sales services pursuant to outsourcing agreements to 58 television stations in 36 markets. For the purpose of this report, these 58 stations are referred to as our stations. We currently have 11 duopoly markets where we own and operate at least two stations within the same market. We have nine LMA markets where, with one exception, we own and operate one station in the market and provide programming and operating services to, or by, another station within that market. In the remaining 16 markets, we own and operate a single television station.

We have a mid-size market focus and 44 of our 58 stations are located in television designated markets areas (DMAs) that rank between the 12th and 75th largest in the United States. Our television station group is diverse in network affiliation with 19 stations affiliated with FOX, 18 with WB, 10 with ABC, six with UPN, two with CBS and one with NBC. Two of our stations are not affiliated with any network. In the fall of 2006, our composition of network affiliates will change as a result of our recent agreement to air MyNetworkTV programming and the recent announcements about the merger of UPN and The WB into a network to be called The CW Television Network (The CW). Refer to our *Markets and Stations* table on page 5 and *Note 18. Subsequent Events,* in the Notes to our Consolidated Financial Statements for additional 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 consists of network provided programs, news produced locally, syndicated local sporting events and syndicated entertainment programs. We provide network produced programming which we broadcast pursuant to our agreements with the network with which the stations are affiliated. We produce news at 26 stations in 23 markets and six stations have a local news sharing arrangement with a competitive station in that market. 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 parties. See *Operating Strategy* later in this Item 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 our national television advertisers through a single national marketing representation firm with offices in the major advertising agency markets of New York City, Los Angeles, Chicago and Atlanta. Our local television advertisers are attracted through the strong local sales force at each of our television stations, which is comprised of approximately 550 account executives company-wide.

Our operating results are subject to seasonal fluctuations. The fourth quarter operating results are typically higher than the first and third quarters primarily because advertising expenditures are increased in anticipation of holiday season spending by consumers. The second quarter operating results are also higher than the first and third quarters primarily because advertising expenditures are increased in anticipation of consumer spending on summer related items such as home improvements, lawn care and travel plans. Our operating results are usually subject to cyclical fluctuations from political advertising. In even-numbered years, political spending is significantly higher than in odd-numbered years due to advertising expenditures preceding local and national elections. Additionally, every four years, political spending is elevated further due to advertising expenditures preceding the presidential election.

We seek to own, operate or engage in operating service agreements with multiple television stations in the markets we serve in order to increase revenues, reduce expenses and improve margins through increased economies of scale. We have entered into LMAs in eight markets where, for a variety of reasons, we do not own the broadcast license related to the second station. In addition, in one market we operate only one station under an LMA for which we do not own the broadcast license. Under LMAs, we provide substantial portions of the broadcast programming and sell advertising time during such programming segments for that second station. Our strategy for attracting viewers and advertisers for our LMA television stations is essentially the same as for our owned and operated television stations. In order to improve our margins, we have entered into outsourcing agreements in four of our markets in which our stations are provided, or provide, various non-programming related services such as sales, operational and managerial services to or by other stations. See *Operating Strategy* later in this Item for more information regarding our LMAs, duopolies and outsourcing agreements.

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.sbgi.net.

TELEVISION BROADCASTING

Markets and Stations

We own and operate, provide programming services to, provide sales services to or have agreed to acquire the following television stations:

Market	Market Rank (a)	Stations	Status (b)	Channel (c)	Affiliation	Expiration Date of Affiliation Agreement	Number of Commercial Stations in the Market (d)	Station Rank (e)	Expiration Date of FCC License
Tampa, Florida	12	WTTA	LMA (f)	38 / 57	WB (v)	01/15/08 (g)	8	6	02/01/05 (h)
Minneapolis/St. Paul, Minnesota	15	KMWB	O&O	23 / 22	WB	01/15/08 (g)	7	6	04/01/06 (h)
St. Louis, Missouri	21	KDNL	O&O	30 / 31	ABC	12/31/09	8	4	02/01/06 (h)
Pittsburgh, Pennsylvania	22	WPGH WCWB	O&O O&O	53 / 43 22 / 42	FOX WB (v)	06/30/05 (i) 1/15/08 (g)	9	4 6	08/01/07 08/01/07
Baltimore, Maryland	24	WBFF WNUV	O&O LMA (k)	45 / 46 54 / 40	FOX WB	06/30/05 (i) 01/15/08 (g)	6	4 5	10/01/04 (j) 10/01/04 (l)
Raleigh/Durham, North Carolina	29	WRDC WLFL	O&O O&O	28 / 27 22 / 57	UPN (v) WB	07/31/07 (g) 01/15/08 (g)	7	5 6	12/01/04 (j) 12/01/04 (j)
Nashville, Tennessee	30	WZTV WUXP WNAB	O&O O&O OSA (m)	17 / 15 30 / 21 58 / 23	FOX UPN (v) WB	06/30/05 (i) 07/31/07 (g) 01/15/08 (g)	8	4 5 6	08/01/05 (h) 08/01/05 (h) 08/01/05 (n)
Columbus, Ohio	32	WSYX WTTE	O&O LMA (k)	6 / 13 28 / 36	ABC FOX	12/31/09 06/30/05 (i)	6	3 4	10/01/05 (h) 10/01/05 (l)
Milwaukee, Wisconsin	33	WCGV WVTV	O&O O&O	24 / 25 18 / 61	UPN (v) WB	07/31/07 (g) 01/15/08 (g)	9	5 6	12/01/05 (j) 12/01/05 (j)
Cincinnati, Ohio	34	WSTR	O&O	64 / 33	WB (v)	01/15/08 (g)	6	5	10/01/05 (h)
Asheville, North Carolina/Greenville/ Spartanburg/Anderson, South Carolina	35	WLOS WBSC	O&O LMA (k)	13 / 56 40 / 14	ABC WB (v)	12/31/09 01/15/08 (g)	7	3 5	12/01/04 (j) 12/01/04 (o)
San Antonio, Texas	37	KABB KRRT	O&O O&O	29 / 30 35 / 32	FOX WB (v)	06/30/05 (i) 01/15/08 (g)	7	4 5	08/01/06 08/01/06
Birmingham, Alabama	40	WTTO WABM WDBB	O&O O&O LMA	21 / 28 68 / 36 17 / 18	WB UPN (v) WB	01/15/08 (g) 07/31/07 (g) 01/15/08 (g)	8	5 6 5 (p)	04/01/05 (h) 04/01/05 (h) 04/01/05 (n)
Norfolk, Virginia	42	WTVZ	O&O	33 / 38	WB (v)	01/15/08 (g)	7	6	10/01/04 (h)
Oklahoma City, Oklahoma	45	KOKH KOCB	O&O O&O	25 / 24 34 / 33	FOX WB	06/30/05 (i) 01/15/08 (g)	9	4 5	06/01/06 (h) 06/01/06

									(h)
Greensboro/Winston-Salem/ Highpoint, North Carolina	47	WXLV	O&O	45 / 29	ABC	12/31/09	7	4	12/01/04 (j)
		WUPN	O&O	48 / 33	UPN (v)	07/31/07 (g)		6	12/01/04 (j)
Las Vegas, Nevada	48	KVWB	O&O	21 / 22	WB (v)	01/15/08 (g)	7	5	10/01/06
		KFBT	O&O	33 / 29	IND (q)	n/a		7	10/01/06
Buffalo, New York	49	WUTV	O&O	29 / 14	FOX	06/30/05 (i)	8	4	06/01/07
		WNYO	O&O	49 / 34	WB (v)	01/15/08 (g)(r)		5	06/01/07
Dayton, Ohio	59	WKEF	O&O	22 / 51	ABC	12/31/09	8	3	10/01/05 (h)
		WRGT	LMA (k)	45 / 30	FOX	06/30/05 (i)		4	10/01/05 (l)
Richmond, Virginia	60	WRLH	O&O	35 / 26	FOX	06/30/05 (i)	5	4	10/01/04 (h)
Mobile, Alabama and Pensacola, Florida	62	WEAR	O&O	3 / 17	ABC	12/31/09	8	2	02/01/05 (h)
		WFGX	O&O	35 / 50	IND (q) (v)	n/a		not rated	02/01/13
Lexington, Kentucky	63	WDKY	O&O	56 / 4	FOX	06/30/05 (i)	6	4	08/01/05 (h)
Charleston and Huntington, West Virginia	64	WCHS	O&O	8 / 41	ABC	12/31/09	6	3	10/01/12
		WVAH	LMA (k)	11 / 19	FOX	06/30/05 (i)		4	10/01/04 (l)
Flint/Saginaw/Bay City, Michigan	65	WSMH	O&O	66 / 16	FOX	06/30/05 (i)	6	4	10/01/05 (h)
Des Moines, Iowa	73	KDSM	O&O	17 / 16	FOX	06/30/05 (i)	5	4	02/01/06 (h)
Portland, Maine	74	WGME	O&O	13 / 38	CBS	12/31/07	6	2	04/01/07
Syracuse, New York	76	WSYT	O&O	68 / 19	FOX	06/30/05 (i)	6	4	06/01/07
		WNYS	LMA	43 / 44	WB (v)	06/30/06 (g)		5	06/01/07
Rochester, New York	79	WUHF	O&O (s)	31 / 28	FOX	06/30/05 (i)	6	4	06/01/07
Cape Girardeau, Missouri/ Paducah, Kentucky	80	KBSI	O&O	23 / 22	FOX	06/30/05 (i)	7	4	02/01/06
		WDKA	LMA	49 / 50	WB (v)	06/15/07 (g)		5	08/01/05 (n)
Springfield/Champaign, Illinois	82	WICS	O&O	20 / 42	ABC	12/31/09	6	3	12/01/05 (j)
		WICD	O&O	15 / 41	ABC	12/31/09		3 (t)	12/01/05 (j)
Madison, Wisconsin	85	WMSN	O&O	47 / 11	FOX	06/30/05 (i)	6	4	12/01/05 (h)
Cedar Rapids, Iowa	88	KGAN	O&O (s)	2 / 51	CBS	12/31/07	6	3	02/01/06 (j)
Charleston, South Carolina	101	WMMP	O&O	36 / 35	UPN (v)	07/31/07 (g)	6	5	12/01/04 (j)
		WTAT	LMA (k)	24 / 40	FOX	06/30/05 (i)		4	12/01/04 (o)
Springfield, Massachusetts	108	WGGB	O&O	40 / 55	ABC	12/31/09	4	2	04/01/07
Tallahassee, Florida	109	WTWC	O&O	40 / 2	NBC	01/01/07 (u)	6	3	02/01/05 (h)
Peoria/Bloomington, Illinois	117	WYZZ	O&O (s)	43 / 28	FOX	06/30/05 (i)	6	4	12/01/05 (h)

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a) Rankings are based on the relative size of a station s designated market area (DMA) among the 210 generally recognized DMAs in the United States as estimated by Nielsen as of November 2005.

b) O & O refers to stations that we own and operate. LMA refers to stations to which we provide programming services pursuant to a local marketing agreement. OSA refers to stations to which we provide sales services pursuant to an outsourcing agreement.

c) Channels are shown here as Analog / Digital. Digital channels 52-68 are subject to change prior to the cessation of analog signals in February 2009.

d) Represents the estimated number of television stations designated by Nielsen as local to the DMA, excluding public television stations and stations that do not meet the minimum Nielsen reporting standards (weekly cumulative audience of at least 0.1%) for the Monday-Sunday, 7:00 a.m. to 1:00 a.m. time period as of November 2005. This information is provided to us in a summary report by Katz Television Group.

e) The rank of each station in its market is based upon the November 2005 Nielsen estimates of the percentage of persons tuned into each station in the market from 7:00 a.m. to 1:00 a.m., Monday-Sunday. This information is provided to us in a summary report by Katz Television Group.

f) The license assets for this station are currently owned by Bay TV, a related party. See *Note 11. Related Party Transactions*, in the Notes to our Consolidated Financial Statements for more information.

g) On January 24, 2006, CBS Corporation (CBS) and Warner Bros. Entertainment (Warner Bros.) announced their intent in September 2006 to merge the operations of their respective networks, UPN and The WB, under a broadcasting network to be called The CW.

h) We filed timely applications for renewal of these licenses with the FCC. These applications are currently pending.

i) On August 22, 2005, we, along with Cunningham and FOX Broadcasting Company (FOX) entered into an Amendment (the Amendment) to each of the original FOX Affiliation Agreements dated July 1, 2002 (collectively, the Agreements), which had expired on June 30, 2005. The Amendment was effective as of August 22, 2005. Pursuant to the terms of the Amendment, the Agreements will continue in full force and effect until terminated by

FOX, or by us or Cunningham (as applicable for its subsidiary stations), in such party s sole discretion. We continue to negotiate the terms of a long-term agreement.

j) We timely filed applications for renewal of these licenses with the FCC. Unrelated third parties have filed petitions to deny or informal objections against such applications. We opposed the petitions to deny and informal objections and those applications are currently pending. See *Note 10. Commitments and Contingencies*, in the Notes to our Consolidated Financial Statements for additional information.

k) The license assets for these stations are currently owned by Cunningham Broadcasting Company (Cunningham), a related party, or one of its subsidiaries. See *Federal Regulations of Television Broadcasting* for more information.

l) Cunningham timely filed applications for renewal of these stations with the FCC. These applications are currently pending.

m) We have entered into an outsourcing agreement with the unrelated third party owner of WNAB-TV to provide certain non-programming related sales, operational and administrative services to WNAB-TV. Our application to acquire this FCC license is pending FCC approval.

n) The unrelated third party licensees of these stations timely filed applications for renewal of these licenses. These applications are currently pending.

o) Cunningham timely filed applications for renewal of these licenses with the FCC. Unrelated third parties have filed petitions to deny such applications. Cunningham opposed the petitions to deny and those applications are currently pending. See *Note 10. Commitments and Contingencies*, in the Notes to our Consolidated Financial Statements for additional information.

p) WDBB-TV simulcasts the programming broadcast on WTTO-TV pursuant to a programming services agreement. The station rank applies to the combined viewership of these stations.

q) IND or Independent refers to a station that is not affiliated with any of ABC, CBS, NBC, FOX, WB or UPN.

r) An argument may exist that this agreement expires on August 31, 2006.

s) We have entered into outsourcing agreements with unrelated third parties, under which the unrelated third parties provide certain non-programming related sales, operational and managerial services to these stations. We continue to own all of the assets of these stations and to program and control each station s operations.

t) WICD-TV, a satellite of WICS-TV, under FCC rules, simulcasts all of the programming aired on WICS-TV except the news broadcasts. The station rank applies to the combined viewership of these stations.

u) NBC informed us that they intend to terminate this affiliation agreement on its expiration date. We continue to negotiate the terms of a new affiliation agreement with NBC.

v) On March 6, 2006, we entered into an agreement with MyNetworkTV to air 12 hours of original programming content from 8:00pm to 10:00pm (EST/PST) Monday through Saturday beginning on September 5, 2006.

Operating Strategy

Our operating strategy includes the following elements:

Programming to Attract Viewership. We seek to target our programming offerings to attract viewership, to meet the needs of the communities in which we serve and to meet the needs of our advertising customers. In pursuit of this strategy, we seek to obtain, at attractive prices, popular syndicated programming that is complementary to each station s network programming. We also seek to broadcast live local and national sporting events that would appeal to a large segment of the local community. Moreover, we produce news at 26 stations in 23 markets, and six stations have a local news sharing agreement with a competitive station in that market. Each of our newscasts includes a daily commentary called *The Point*, which was recently awarded four Telly Awards for excellence. The Telly Awards is a widely known and highly respected national and international competition, and is the premier award honoring outstanding local, regional and cable TV commercials and programs, as well as the finest video and film productions.

Developing Local Franchises. We believe the greatest opportunity for a sustainable and growing customer base lies within our local communities. Therefore, we have focused on developing a strong local sales force at each of our television stations, which is comprised of approximately 550 account executives company-wide. Excluding political advertising revenue, 61.6% of our time sales were local for the year ended December 31, 2005, up from 62.7% in 2004. Our goal is to continue to grow our local revenues by increasing our market share and by developing new business opportunities.

Developing New Business. We are always striving to develop new business models to complement or enhance our existing television broadcast business. During the past few years, we have built a profitable direct mail business at many of our stations using, for the most part, our existing sales force. As we continue to improve the profit margins from this business, we plan to develop other initiatives beginning in 2006 that will give us additional competitive advantage.

One of these initiatives is multi-channel digital broadcasting. Our digital channel capacity will allow us to broadcast multiple additional channels, in addition to our current broadcast channel, for each FCC license we own. In May 2006, we are launching WBFF-2 in Baltimore, Maryland as a new digital channel that will air nostalgic syndicated programming that will appeal to a niche market that is not currently being served. This additional channel will use the same broadcasting infrastructure as WBFF-TV, our main channel in Baltimore, and our existing sales force, both of which should enable us to become profitable in the first year of operations.

Another initiative is production and airing of *A Better Life*, a self-improvement program, in many of our markets. This type of programming appeals to a wide array of viewers, which makes it appealing to advertisers that haven t traditionally focused on television advertising. Our first series of *A Better Life* has resulted in advertising committments of approximately $2.5 million to date, and we expect to continue producing this program and other similar programming, going forward.

Monetizing Retransmission Agreements. As the competition for programming content increases among the many cable, satellite and telecommunications companies, we are in a position to realize significant additional revenues. We have retransmission agreements with many cable and satellite operators in our markets. Previously, these agreements have allowed these cable and satellite companies to air our programming to their subscribers without reimbursing us for this content. We believe that these companies should reimburse us for our digital signal, and as such, as these agreements come up for renewal, we are including terms which provide us with retransmission fee revenues. Additionally, as the major telecommunications companies develop their infrastructure to deliver programming content to television sets, cell phones and other hand-held devices, we will be able to generate additional retransmission fees through agreements with them for our digital signal.

Control of Operating and Programming Costs. By employing a disciplined approach to managing programming acquisition and other costs, we have been able to achieve operating margins that we believe are very competitive within the television broadcast industry. We believe our national reach of approximately 22% of the country provides us with a strong position to negotiate with programming providers, and, as a result, the opportunity to purchase high quality programming at more favorable prices. Moreover, we emphasize control of each of our station s programming and operating costs through program-specific profit analysis, detailed budgeting, regionalization of staff and detailed long-term planning models.

Ownership Duopolies and Utilization of Local Marketing Agreements. We have sought to increase our revenues and improve our margins through the ownership of two stations in a single market, called a duopoly, and by providing programming services pursuant to an LMA to a second station in eight DMAs where we already own one station. Duopolies and LMAs allow us to realize significant economies of scale in marketing, programming, overhead and capital expenditures. We also believe these arrangements enable us to air popular programming and contribute to the diversity of programming within each DMA. Although under the FCC ownership rules released in June 2003, we would be allowed to continue to program most of the stations with which we have an LMA, in the absence of a waiver, the 2003 rules would require us to terminate or modify three of our LMAs. Although there can be no assurances, we have studied the application of the 2003 rules to our markets and believe we are qualified for waivers. For additional information, refer to *Risk Factors - Changes in Rules on Television Ownership*, and *Risk Factors - The FCC s multiple ownership rules limit our ability to operate multiple television stations in some markets and may result in a reduction in our revenue or prevent us from reducing costs. Changes in these rules may threaten our existing strategic approach to certain television markets*.

Use of Outsourcing Agreements. In addition to our LMAs, we currently operate under four (and may seek opportunities for additional) outsourcing agreements in which our stations provide or are provided various non-programming related services such as sales, operational and managerial services to or by other stations. Pursuant to these agreements, our stations in Nashville, Tennessee currently provides services to another station in the market and other parties provide services to our stations in Peoria/Bloomington, Illinois, Cedar Rapids, Iowa and Rochester, New York. As a result of a change in ownership of the unrelated third-party, we terminated our outsourcing agreement in Tallahassee, Florida on February 19, 2006. We believe this structure allows stations to achieve operational efficiencies and economies of scale, which should otherwise improve broadcast cash flow and competitive positions. While television joint sales agreements (JSAs) are not currently attributable, as that term is defined by the FCC, on August 2, 2004, the FCC released a notice of proposed rulemaking seeking comments on its tentative conclusion that television joint sales agreements should be attributable. We cannot predict the outcome of this proceeding, nor can we predict how any changes, together with possible changes to the ownership rules, would apply to our existing outsourcing agreements.

Strategic Realignment of Station Portfolio. We continue to examine our television station group portfolio in light of the FCC s broadcast ownership rules adopted in 2003. For a summary of these rules, refer to *Ownership Matters,* discussed in the *Federal Regulation of Television Broadcasting*. Our objective is to build our local franchises in the markets we deem strategic. We routinely review and conduct investigations of potential television station acquisitions, dispositions and station swaps. At any given time, we may be in discussions with one or more television station owners. For more information related to station sales, see *Note 12. Discontinued Operations*, in the Notes to our Consolidated Financial Statements.

On November 15, 1999, we entered into a plan and agreement of merger to acquire through merger WBSC-TV (formerly WFBC-TV) in Anderson, South Carolina from Cunningham Broadcasting Corporation (Cunningham), but that transaction was denied by the FCC. In light of the change in the 2003 ownership rules, we have filed a petition for reconsideration with the FCC and amended our application to acquire the license of WBSC-TV. We also filed applications in November 2003 to acquire the license assets of the remaining five Cunningham stations: WRGT-TV, Dayton, Ohio; WTAT-TV, Charleston, South Carolina; WVAH-TV, Charleston, West Virginia; WNUV-TV, Baltimore, Maryland; and WTTE-TV, Columbus, Ohio. The Rainbow/PUSH Coalition (Rainbow/PUSH) filed a petition to deny these five applications and to revoke all of our licenses. The FCC dismissed our applications in light of the stay of the 2003 ownership rules and also denied the Rainbow/PUSH petition. Rainbow/PUSH filed a petition for reconsideration of that denial and we filed an application for review of the dismissal, which may be impacted by the remand of the FCC s 2003 ownership rules. In 2005, we filed a petition with the U. S. Court of Appeals for the D.C. Circuit requesting that the Court direct the FCC to take final action on our applications, but that petition was dismissed. On January 6, 2006, we submitted a motion to the FCC requesting that it take final action on our applications. Both the applications and the associated petition to deny are still pending. We believe the Rainbow/PUSH petition is without merit.

On July 21, 2005, we filed with the FCC an application to acquire WNAB-TV in Nashville, Tennessee. Rainbow/PUSH filed a petition to deny that application and also requested that the FCC initiate a hearing to investigate whether WNAB was improperly operated with WZTV-TV and WUXP-TV, two of our stations located in the same market as WNAB. That proceeding is currently pending and we believe the petition had no merit.

At this time, there can be no assurance that any of these transactions will be completed. See *Risk Factors - The FCC s multiple ownership rules limit our ability to operate multiple television stations and may result in a reduction on our revenue or prevent us from reducing costs. Changes in these rules may threaten our existing strategy approach to certain television markets*.

Local News. We believe that the production and broadcasting of local news is an important link to the community and an aid to a station s efforts to expand its viewership. In addition, local news programming can provide access to advertising sources targeted specifically to local news viewers. We assess the anticipated benefits and costs of producing local news prior to introduction at our stations because a significant investment in capital equipment is required and substantial operating expenses are incurred in introducing, developing and producing local news programming. We also continuously review the performance of our existing news operations to make sure they are economically viable.

Popular Sporting Events. Our WB and UPN affiliated and independent stations generally face fewer restrictions on broadcasting live local sporting events compared with FOX, ABC, CBS and NBC affiliates, which are required to broadcast a greater number of hours of programming supplied by the networks. At some of our stations, we have been able to acquire local television broadcast rights for certain sporting events, including NBA basketball, Major League Baseball, NFL football, NHL hockey, ACC basketball and both Big Ten and SEC football and basketball. We seek to expand our sports broadcasting in DMAs only as profitable opportunities arise. In addition, our stations that are affiliated with FOX, ABC, CBS and NBC broadcast certain Major League Baseball games, NFL football games, NHL hockey games and NASCAR races, as well as other popular sporting events.

Attract and Retain High Quality Management. We believe that much of our success is due to our ability to attract and retain highly skilled and motivated managers at both the corporate and local station levels. A significant portion of the compensation available to our Chief Operating Officer, sales vice presidents, group managers, general managers, sales managers and other station managers is based on their exceeding certain operating results. We also provide some of our corporate and station managers with deferred compensation plans. Annually, managers at our stations and certain of our corporate officers are eligible for bonuses tied to performance at the discretion of the Compensation Committee (which is comprised of certain members of the Board of Directors).

Community Involvement. Each of our stations actively participates in various community activities and offers many community services. Our activities include broadcast programming of local interest and sponsorship of community and charitable events. We also encourage our station employees to become active members of their communities and to promote involvement in community and charitable affairs. After Hurricane Ivan affected their community, WEAR-TV in Pensacola, Florida compiled their news footage of the hurricane into a DVD entitled In Focus: Hurricane Ivan Special. Approximately $180,000 of the proceeds from the sale of the DVDs was donated to various charities including Habitat for Humanity and United Way. In response to the Tsunami tragedy in Southeast Asia during 2004, our employees generously donated over $17,000; we matched this amount with a contribution to the American Red Cross. In response to the disaster caused by Hurricane Katrina, the Sinclair Relief Fund (the Fund) was formed by David D. Smith, Frederick Smith, J. Duncan Smith, each controlling shareholders, and Barry M. Faber, our Vice President and General Counsel. The Fund is a qualified charitable organization formed to provide monetary aid and relief to the victims of natural disasters. Our employees and viewers generously donated over $208,000 to the Fund and we made an additional contribution of $50,000. The Fund distributed the contributions to various organizations including the American Red Cross, the Salvation Army, Feed the Children and USA Harvest. We believe that active community involvement by our stations provides our stations with increased exposure in their respective DMAs and is our responsibility as stewards of the community s broadcast license.

FEDERAL REGULATION OF TELEVISION BROADCASTING

The ownership, operation and sale of television stations are subject to the jurisdiction of the FCC, which acts under the authority granted by the Communications Act of 1934, as amended (Communications Act). Among other things, the FCC assigns frequency bands for broadcasting; determines the particular frequencies, locations and operating power of stations; issues, renews, revokes and modifies station licenses; regulates equipment used by stations; adopts and implements regulations and policies that directly or indirectly affect the ownership, operation and employment practices of stations; and has the power to impose penalties for violations of its rules or the Communications Act.

The following is a brief summary of certain provisions of the Communications Act, the Telecommunications Act of 1996 (the 1996 Act) and specific FCC regulations and policies. Reference should be made to the Communications Act, the 1996 Act, FCC rules and the public notices and rulings of the FCC for further information concerning the nature and extent of federal regulation of broadcast stations.

License Grant and Renewal

Television stations operate pursuant to broadcasting licenses that are granted by the FCC for maximum terms of eight years and are subject to renewal upon application to the FCC. During certain periods when renewal applications are pending, petitions to deny license renewals can be filed by interested parties, including members of the public. The FCC will generally grant a renewal application if it finds:

that the station has served the public interest, convenience and necessity;

that there have been no serious violations by the licensee of the Communications Act or the rules and regulations of the FCC; and

that there have been no other violations by the licensee of the Communications Act or the rules and regulations of the FCC that, when taken together, would constitute a pattern of misconduct.

All of the stations that we currently own and operate or provide programming services or sales services to, pursuant to LMAs or other agreements, are presently operating under regular licenses, which expire as to each station on the dates set forth under *Television Broadcasting* above. Although renewal of a license is granted in the vast majority of cases even when petitions to deny are filed, there can be no assurance that the license of any station will be renewed.

In 2004, we filed with the FCC an application for the license renewal of WBFF-TV in Baltimore, Maryland. Subsequently, an individual named Richard D Amato filed a petition to deny the application. In 2004, we also filed with the FCC applications for the license renewals of television stations: WXLV-TV in Winston-Salem, North Carolina; WUPN-TV in Greensboro, North Carolina; WLFL-TV in Raleigh/Durham, North Carolina; WRDC-TV in Raleigh/Durham, North Carolina; WLOS-TV in Asheville, North Carolina and WMMP-TV in Charleston, South Carolina. An organization calling itself Free Press filed a petition to deny the renewal applications of these stations and also the renewal applications of two other stations in those markets: WTAT-TV in Charleston, South Carolina and WBSC-TV in Anderson, South Carolina; that we program pursuant to LMAs. Several individuals and an organization named Sinclair Media Watch also filed informal objections to the license renewal applications of WLOS and WBSC, raising essentially the same arguments presented in the Free Press petition. The FCC is currently in the process of considering these renewal applications and we believe the objections have no merit.

On August 1, 2005, we filed applications with the FCC requesting renewal of the broadcast licenses for WICS-TV and WICD-TV in Springfield/Champaign, Illinois. Subsequently, various viewers filed informal objections requesting that the FCC deny these renewal applications. Also on August 1, 2005, we filed applications with the FCC requesting renewal of the broadcast licenses for WCGV-TV and WVTV-TV in Milwaukee, Wisconsin. On November 1, 2005, the Milwaukee Public Interest Media Coalition filed a petition with the FCC to deny these renewal applications. On September 30, 2005, we filed an application with the FCC for the renewal of the broadcast license for KGAN-TV in Cedar Rapids, Iowa. On December 28, 2005, an organization calling itself Iowans for Better Local Television filed a petition to deny that application. The FCC is currently in the process of considering these renewal applications and we believe the objections and petitions requesting denial have no merit.

On July 21, 2005, we filed with the FCC an application to acquire WNAB-TV in Nashville, Tennessee. Rainbow/PUSH filed a petition to deny that application and also requested that the FCC initiate a hearing to investigate whether WNAB was improperly operated with WZTV-TV and WUXP-TV, two of our stations located in the same market as WNAB. That proceeding is currently pending and we believe the petition has no merit.

On October 12, 2004, the FCC issued a Notice of Apparent Liability for Forfeiture (NAL) in the amount of $7,000 per station to virtually every FOX station, including the 15 FOX affiliates presently licensed to us and the four FOX affiliates programmed by us and one FOX affiliate we sold in 2005. The NAL alleged that the stations broadcast indecent material contained in an episode of a FOX network program that aired on April 7, 2003. We, as well as other parties including the FOX network, filed oppositions to the NAL. That proceeding is still pending. Although we cannot predict the outcome of that proceeding or the effect of any adverse outcome on the stations license renewal applications, the FOX network has agreed to indemnify its affiliates for the full amount of this liability.

Action on many license renewal applications, including those we have filed, has been delayed because of the pendency of complaints that programming aired by the various networks contained indecent material. We cannot predict when the FCC will address these complaints and act on the renewal applications.

Recent actions by the FCC have also made it difficult for us to predict the impact on our license renewals from allegations related to the airing of indecent material that may arise in the ordinary course of our business. For example, on Veterans Day in November 2004, we preempted (did not air) Saving Private Ryan , a program that was aired during ABC s network programming time. We felt that the program contained indecent material as defined by the FCC and could result in a fine or other negative consequences for one or more of our ABC stations. In February

2005, the FCC dismissed all complaints filed against ABC stations regarding this program. The FCC s decision justified what some may consider indecent material as appropriate in the context of the program. Although this ruling has expanded the programming opportunities of our stations, it still leaves us at risk because of what might be determined as legitimate context by us may not be deemed so by the FCC. We only know that Saving Private Ryan and Schindler s List are allowed to be aired in their entirety under current FCC rulings.

Ownership Matters

General. The Communications Act prohibits the assignment of a broadcast license or the transfer of control of a broadcast license without the prior approval of the FCC. In determining whether to permit the assignment or transfer of control of, or the grant or renewal of, a broadcast license, the FCC considers a number of factors pertaining to the licensee, including compliance with various rules limiting common ownership of media properties, the character of the licensee and those persons holding attributable interests in that licensee and compliance with the Communications Act s limitations on alien ownership.

To obtain the FCC s prior consent to assign a broadcast license or transfer control of a broadcast license, appropriate applications must be filed with the FCC. If the application involves a substantial change in ownership or control, the application must be placed on public notice for a period of approximately 30 days during which petitions to deny the application may be filed by interested parties, including members of the public. If the application does not involve a substantial change in ownership or control, it is a pro forma application. The pro forma application is not subject to petitions to deny or a mandatory waiting period, but is nevertheless subject to having informal objections filed against it. If the FCC grants an assignment or transfer application, interested parties have approximately 30 days from public notice of the grant to seek reconsideration or review of the grant. Generally, parties that do not file initial petitions to deny or informal objections against the application face difficulty in seeking reconsideration or review of the grant. The FCC normally has an additional ten days to set aside such grant on its own motion. When passing on an assignment or transfer application, the FCC is prohibited from considering whether the public interest might be served by an assignment or transfer to any party other than the assignee or transferee specified in the application.

The FCC generally applies its ownership limits to attributable interests held by an individual, corporation, partnership or other association. In the case of corporations holding, or through subsidiaries controlling, broadcast licenses, the interests of officers, directors and those who, directly or indirectly, have the right to vote 5% or more of the corporation s stock (or 20% or more of such stock in the case of insurance companies, investment companies and bank trust departments that are passive investors) are generally attributable. In August 1999, the FCC revised its attribution and multiple ownership rules and adopted the equity-debt-plus rule that causes certain creditors or investors to be attributable owners of a station. Under this rule, a major programming supplier (any programming supplier that provides more than 15% of the station s weekly programming hours) or same-market media entity will be an attributable owner of a station if the supplier or same-market media entity holds debt or equity, or both, in the station that is greater than 33% of the value of the station s total debt plus equity. For the purposes of this rule, equity includes all stock, whether voting or non-voting, and equity held by insulated limited partners in partnerships. Debt includes all liabilities whether long-term or short-term. In addition, LMAs are attributable where a licensee owns a television station and programs more than 15% of another television station in the same market.

The Communications Act prohibits the issuance of a broadcast license to, or the holding of a broadcast license by, any corporation of which more than 20% of the capital stock is owned of record or voted by non-U. S. citizens or their representatives or by a foreign government or a representative thereof, or by any corporation organized under the laws of a foreign country (collectively, aliens). The Communications Act also authorizes the FCC, if the FCC determines that it would be in the public interest, to prohibit the issuance of a broadcast license to, or the holding of a broadcast license by, any corporation directly or indirectly controlled by any other corporation of which more than 25% of the capital stock is owned of record or voted by aliens. The FCC has issued interpretations of existing law under which these restrictions in modified form apply to other forms of business organizations, including partnerships.

As a result of these provisions, the licenses granted to our subsidiaries by the FCC could be revoked if, among other restrictions imposed by the FCC, more than 25% of our stock were directly or indirectly owned or voted by aliens. Sinclair and its subsidiaries are domestic corporations, and the members of the Smith family (who together hold approximately almost 85% of the common voting rights of Sinclair) are all United States citizens. Our amended and restated Articles of Incorporation (the amended certificate) contain limitations on alien ownership and control that are substantially similar to those contained in the Communications Act. Pursuant to the amended certificate, we have the right to repurchase alien-owned shares at their fair market value to the extent necessary, in the judgment of the Board of Directors, to comply with the alien ownership restrictions.

In June 2003, the FCC adopted a Report and Order modifying its multiple ownership rules. The 2003 rules, among other things:

increase the number of stations an entity may own nationally by increasing the national audience reach cap from 35% to 45% and leave unchanged the method of calculating an entities audience reach. Congress subsequently passed a bill requiring the FCC to establish a national audience reach cap of 39%. (See discussion below in *National Ownership Rule*);

increase the number of stations an entity can own or control in many local markets, subject to restrictions including the number of stations an entity can own or control which are ranked among the top four in their DMA;

repeal the newspaper-broadcast ownership limits and replace them with general media cross-ownership limits which, in many markets, would permit owners of daily newspapers to own one or more television stations and/or radio stations in the same market as the newspaper s city of publication; and

repeal the radio-television broadcast ownership limits and replace them with new general media cross-ownership limits.

If these rules become law, broadcast television owners would be permitted to own more television stations, potentially affecting our competitive position. The Third Circuit Court of Appeals has stayed the application of the 2003 rules as a result of numerous legal challenges, including one we filed. In July 2004, the Court issued a decision holding, among other things, that the numerical limits established by the FCC s 2003 local television ownership rule were patently unreasonable and not consistent with the record evidence. The Court remanded the numerical limits for the FCC to justify or modify and left the stay in effect pending the FCC s action on remand. Several parties, including us, have filed petitions with the Supreme Court of the United States seeking review of the Third Circuit decision, but the Supreme Court denied the petitions in June 2005. During the pendency of the remand, the Third Circuit has ordered the FCC to continue to apply the ownership rules in effect prior to the adoption of the 2003 rules. Following is a description of the FCC ownership rules currently being applied:

Radio/Television Cross-Ownership Rule. The FCC s radio/television cross-ownership rule (the one to a market rule) generally permits a party to own a combination of up to two television stations and six radio stations in the same market, depending on the number of independent media voices in the market.

Broadcast/Daily Newspaper Cross-Ownership Rule. The FCC s rules prohibit the common ownership of a radio or television broadcast station and a daily newspaper in the same market.

Dual Network Rule. The four major television networks, FOX, ABC, CBS and NBC, are prohibited, absent a waiver, from merging with each other. In May 2001, the FCC amended its dual network rule to permit the four major television networks to own, operate, maintain or control the UPN and/or the WB television network.

National Ownership Rule. The FCC s current national ownership rule states that no individual or entity may have an attributable interest in television stations reaching more than 35% of the national television viewing audience. However, Congress passed a bill requiring the FCC to establish a national audience reach cap of 39% and President Bush signed the bill into law on January 23, 2004. Under this rule, where an individual or entity has an attributable interest in more than one television station in a market, the percentage of the national television viewing audience encompassed within that market is only counted once. Since, historically, VHF stations (channels 2 through 13) have shared a larger portion of the market than UHF stations (channels 14 through 69), only half of the households in the market area of any UHF station are included when calculating an entity s national television viewing audience (commonly referred to as the UHF discount).

All but seven of the stations we own and operate, or to which we provide programming services, are UHF. We reach approximately 22% of U. S. television households or 12.5% taking into account the FCC s UHF discount.

Local Television (Duopoly) Rule. A party may own television stations in adjoining markets, even if there is Grade B (discussed below) overlap between the two stations analog signals and generally may own two stations in the same market:

if there is no Grade B overlap between the stations; or if the market containing both the stations will contain at least eight independently owned full-power television stations post-merger (the eight voices test) and not more than one station is among the top-four ranked stations in the market.

In addition, a party may request a waiver of the rule to acquire a second station in the market if the station to be acquired is economically distressed or not yet constructed and there is no party who does not own a local television station who would purchase the station for a reasonable price.

There are three grades of service for traditional television broadcasts, City (strongest), Grade A and Grade B (least strong); and the signal decreases in strength the further away the viewer is from the broadcast antenna tower. Generally, it is not as easy for viewers with properly installed outdoor antennas to receive a Grade B signal, as it is to receive a Grade A or City Grade signal.

Antitrust Regulation. The Department of Justice (DOJ) and the Federal Trade Commission (FTC) have increased their scrutiny of the television industry since the adoption of the 1996 Act and have reviewed matters related to the concentration of ownership within markets (including LMAs) even when ownership or the LMA in question is permitted under the laws administered by the FCC or by FCC rules and regulations. The DOJ takes the position that an LMA entered into in anticipation of a station s acquisition with the proposed buyer of the station constitutes a change in beneficial ownership of the station which, if subject to filing under the Hart-Scott-Rodino Anti Trust Improvements Act (HSR Act), cannot be implemented until the waiting period required by that statute has ended or been terminated.

Expansion of our broadcast operations on both a local and national level will continue to be subject to the FCC s ownership rules and any changes the FCC or Congress may adopt. At the same time, any further relaxation of the FCC s ownership rules, which could occur if the rules adopted in 2003 become effective, may increase the level of competition in one or more markets in which our stations are located, more specifically to the extent that any of our competitors may have greater resources and thereby be in a superior position to take advantage of such changes.

Local Marketing Agreements

Certain of our stations have entered into what have commonly been referred to as local marketing agreements or LMAs. One typical type of LMA is a programming agreement between two separately owned television stations serving the same market, whereby the licensee of one station programs substantial portions of the broadcast day and sells advertising time during such programming segments on the other licensee s station subject to the ultimate editorial and other controls being exercised by the latter licensee. We believe these arrangements allow us to reduce our operating expenses and enhance profitability.

Under the FCC ownership rules adopted in 2003, we would be allowed to continue to program most of the stations with which we have an LMA. In the absence of a waiver, the 2003 ownership rules would require us to terminate or modify three of our LMAs in markets where both the station we own and the station with which we have an LMA are ranked among the top four stations in their particular designated market area. The FCC s 2003 ownership rules include specific provisions permitting waivers of this top four restriction . Although there can be no assurances, we have studied the application of the 2003 ownership rules to our markets and believe we are qualified for waivers. The effective date of the 2003 ownership rules has been stayed by the U. S. Court of Appeals for the Third Circuit and the rules are on remand to the FCC. Several parties, including us, filed petitions with the Supreme Court of the United States seeking review of the Third Circuit decision, but the Supreme Court denied the petitions. The FCC has not commenced its proceeding on remand. We cannot predict the outcome of that proceeding, which could significantly impact our business.

When the FCC decided to attribute LMAs for ownership purposes in 1999, it grandfathered our LMAs that were entered into prior to November 5, 1996, permitting the applicable stations to continue operations pursuant to the LMAs until the conclusion of the FCC s 2004 biennial review. The FCC stated it would conduct a case-by-case review of grandfathered LMAs and assess the appropriateness of extending the grandfathering periods. Subsequently, the FCC invited comments as to whether, instead of beginning the review of the grandfathered LMAs in 2004, it should do so in 2006. The FCC has not initiated any such review of grandfathered LMAs and we cannot predict when the FCC will do so.

Because the effective date of the 2003 ownership rules has been stayed and, in connection with the adoption of those rules, the FCC concluded the old rules could not be justified as necessary to the public interest, we have taken the position that an issue exists regarding whether the FCC has any current legal right to enforce any rules prohibiting the acquisition of television stations. The FCC, however, dismissed our applications to acquire certain LMA stations. We filed an application for review of that decision, which is still pending. In 2005, we filed a petition with the U. S. Court of Appeals for the D.C. Circuit requesting that the Court direct the FCC to take final action on our applications, but that petition was denied. We recently submitted a motion to the FCC requesting that it take final action on our applications and that request is pending.

On November 15, 1999, we entered into a plan and agreement of merger to acquire through merger WBSC-TV (formerly WFBC-TV) in Anderson, South Carolina from Cunningham Broadcasting Corporation (Cunningham), but that transaction was denied by the FCC. In light of the change in the 2003 ownership rules, we have filed a petition for reconsideration with the FCC and amended our application to acquire the license of WBSC-TV. We also filed applications in November 2003 to acquire the license assets of the remaining five Cunningham stations: WRGT-TV, Dayton, Ohio; WTAT-TV, Charleston, South Carolina; WVAH-TV, Charleston, West Virginia; WNUV-TV, Baltimore, Maryland; and WTTE-TV, Columbus, Ohio. The Rainbow/PUSH Coalition (Rainbow/PUSH) filed a petition to deny these five applications and to revoke all of our licenses. The FCC dismissed our applications in light of the stay of the 2003 ownership rules and also denied the Rainbow/PUSH petition. Rainbow/PUSH filed a petition for reconsideration of that denial and we filed an application for review of the dismissal, which may be impacted by the remand of the FCC s 2003 ownership rules. In 2005, we filed a petition with the U. S. Court of Appeals for the D. C. Circuit requesting that the Court direct the FCC to take final action on our applications, but that petition was dismissed. We recently submitted a motion to the FCC requesting that it take final action on our applications. Both the applications and the associated petition to deny are still pending. We believe the Rainbow/PUSH petition is without merit.

The Satellite Home Viewer Improvement Act (SHVIA) and the Satellite Home Viewer Extension and Reauthorization Act (SHVERA)

In 1988, Congress enacted the Satellite Home Viewer Act (SHVA), which enabled satellite carriers to provide broadcast programming to those satellite subscribers who were unable to obtain broadcast network programming over-the-air. SHVA did not permit satellite carriers to retransmit local broadcast television signals directly to their subscribers. The Satellite Home Viewer Improvement Act of 1999 (SHVIA) revised SHVA to reflect changes in the satellite and broadcasting industry. This legislation allowed satellite carriers, until December 31, 2004, to provide local television signals by satellite within a station market, and effective January 1, 2002, required satellite carriers to carry all local signals in any market where they carry any local signals. On or before July 1, 2001, SHVIA required all television stations to elect to exercise certain must carry or retransmission consent rights in connection with their carriage by satellite carriers. We have entered into compensation agreements granting the two primary satellite carriers retransmission consent to carry all our stations. In December 2004, President Bush signed into law the Satellite Home Viewer Extension and Reauthorization Act (SHVERA). SHVERA extended, until December 31, 2009, the rights of broadcasters and satellite carriers under SHVIA to retransmit local television signals by satellite. SHVERA also authorized satellite delivery of distant network signals, significantly viewed signals and local low-power television station signals into local markets under defined circumstances. With respect to digital signals, SHVERA established a process to allow satellite carriers to retransmit distant network signals and significantly viewed signals and to subscribers under certain circumstances. In November 2005, the FCC completed a rulemaking proceeding enabling the satellite carriage of significantly viewed signals. In December 2005, the FCC concluded a study, as required by SHVERA, regarding the applicable technical standards for determining when a subscriber may receive a distant digital network signal. The carriage of programming from two network stations to a local market on the same satellite system could result in a decline in viewership of the local network station, adversely impacting the revenues of our affected owned and programmed stations.

Must Carry/Retransmission Consent

Pursuant to the Cable Act of 1992, television broadcasters are required to make triennial elections to exercise either certain must-carry or retransmission consent rights in connection with their carriage by cable systems in each broadcaster s local market. By electing the must-carry rights, a broadcaster demands carriage on a specific channel on cable systems within its DMA, in general, as defined by the Nielsen DMA Market and Demographic Rank Report of the prior year. These must-carry rights are not absolute and their exercise is dependent on variables such as:

the number of activated channels on a cable system;

the location and size of a cable system; and

the amount of programming on a broadcast station that duplicates the programming of another broadcast station carried by the cable system.

Therefore, under certain circumstances, a cable system may decline to carry a given station. Alternatively, if a broadcaster chooses to exercise retransmission consent rights, it can prohibit cable systems from carrying its signal or grant the appropriate cable system the authority to retransmit the broadcast signal for a fee or other consideration. In October 2005, we elected must-carry and retransmission consent with respect to each of our stations based on our evaluation of the respective markets and the position of our owned or programmed station(s) within the market. Our stations continue to be carried on all pertinent cable systems and we do not believe that our elections have resulted in the shifting of our stations to less desirable cable channel locations. Many of the agreements we have negotiated for cable carriage of our analog signal are short term, subject to month-to-month extensions.

In February 2005, the FCC adopted an order stating that cable television systems are not required to carry both a station s analog and digital signals during the digital transition period. Thus, only television stations operating solely with digital signals are entitled to mandatory carriage of their digital signal by cable companies. In addition, it is technically possible for a television station to broadcast more than one channel of programming using its digital signal. The same FCC order clarified that cable systems need only carry a broadcast station s primary video stream and not any of the station s other programming streams in those situations where a station chooses to transmit multiple programming streams.

Many of the viewers of our television stations receive the signal of the stations via cable television service. Cable television systems generally transmit our signals pursuant to permission granted by us in retransmission consent agreements. A material portion of these agreements have no definite term and may be terminated either by us or by the applicable cable television company on very short notice (usually 45 to 60 days). We are currently engaged in negotiations with respect to these agreements with several major cable television companies and during 2005, we reached an agreement with Comcast, our nation s largest cable operator. There can be no assurance that the results of these negotiations will be advantageous to us or that we or the cable companies might not determine to terminate some or all of these agreements. A termination of our retransmission agreements would make it more difficult for our viewers to watch our programming and could result in lower ratings and a negative financial impact on us. In addition, we generally have not provided the major cable television companies with the right to transmit our stations digital signals. Although the lack of carriage of these signals does not, at this time, have a material impact on our financial statements, this could change as the number of households in the United States with the capability of viewing digital and high definition television increases. There can be no assurances that we will be able to negotiate mutually acceptable retransmission agreements in the future relating to the carriage of our digital signals.

Syndicated Exclusivity/Territorial Exclusivity

The FCC s syndicated exclusivity rules allow local broadcast television stations to demand that cable operators black out syndicated non-network programming carried on distant signals (i.e. signals of broadcast stations, including so-called superstations , which serve areas substantially removed from the cable systems local community). The FCC s network non-duplication rules allow local broadcast, network affiliated stations to require that cable operators black out duplicate network

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programming carried on distant signals. However, in a number of markets in which we own or program stations affiliated with a network, a station that is affiliated with the same network in a nearby market is carried on cable systems in our markets. This is not necessarily a violation of the FCC s network non-duplication rules. However, the carriage of two network stations on the same cable system could result in a decline of viewership, adversely affecting the revenues of our owned or programmed stations.

In December 2004, President Bush signed into law the Satellite Home Viewer Extension and Reauthorization Act (SHVERA). Among other things, SHVERA allows satellite carriers to transmit distant signals and the signals of significantly viewed stations under certain circumstances. In November 2005, the FCC completed a rulemaking proceeding enabling the satellite carriage of significantly viewed signals. In December 2005, the FCC concluded a study, as required by SHVERA, regarding the applicable technical standards for determining when a subscriber may receive a distant digital network signal. The carriage of programming of two network stations to a local market on the same satellite system could result in a decline in viewership of the local network station, adversely impacting the revenues of our affected owned and programmed stations.

Digital Television

The FCC has taken a number of steps to implement digital television (DTV) broadcasting services. The FCC has adopted an allotment table that provides all authorized television stations with a second channel on which to broadcast a DTV signal. The FCC has attempted to provide DTV coverage areas that are comparable to stations existing service areas. The FCC has ruled that television broadcast licensees may use their digital channels for a wide variety of services such as high-definition television, multiple standard definition television programming, audio, data and other types of communications, subject to the requirement that each broadcaster provide at least one free video channel equal in quality to the current technical standard and further subject to the requirement that broadcasters pay a fee of 5% of gross revenues from any DTV ancillary or supplementary service for which there is a subscription fee or for which the licensee receives a fee from a third party.

DTV channels are generally located in the range of channels from channel 2 through channel 51. All commercial stations were required to have begun digital broadcasting by May 1, 2002. Under the FCC s rules, all DTV stations are required to operate at all times in which their analog stations are operating. In September 2004, the FCC eliminated its requirement that a digital station simulcast a certain percentage of the programming transmitted on its associated analog station.

As of December 31, 2004, DTV stations were required to meet a certain signal strength standard for the digital signal coverage in their communities of license. By July 2005, a DTV licensee affiliated with a top four network (i.e, FOX, ABC, CBS or NBC) that is located in one of the top 100 markets was required to meet a higher replication standard or lose interference protection for those areas not covered by the digital signal. For a station subject to this deadline which had not yet received a construction permit, the FCC required that such station build a checklist facility by August 2005. We filed requests, that are still pending, for extensions and waivers of these deadlines for the following stations: WUTV-DT, Buffalo, New York; WGME-DT, Portland, Maine; WLOS-DT Asheville, North Carolina and WSMH-DT, Flint, Michigan. For all other commercial DTV licensees, as well as non-commercial DTV licensees, the applicable higher replication standard must be met by July 2006. There are no guarantees that our stations will be able to meet these requirements or that our extension and waiver requests will be granted. Loss of interference protection for any of our stations could reduce the number of viewers of that station and could adversely impact revenues for that station.

We operate our television stations at different power levels pursuant to our FCC licenses, applicable permits or special temporary authority granted by the FCC. The following table is a summary of our operating status as of December 31, 2005:

DTV Operating Status	# of Stations
Operating at low power with special temporary authority	22
Operating with approved digital license	15
Operating at full power, pending license approval	9
LMA/JSA stations operating at low power with special temporary authority	6
LMA stations operating at full power, pending license approval	4
Applications pending for construction permits	1
License pending but operating under special temporary authority due to equipment problems	1
	58

In April 2003, the FCC adopted a policy of graduated sanctions to be imposed upon licensees who do not meet the FCC s DTV build-out schedule. Under the policy, the stations could face monetary fines and possible loss of any digital construction permits for non-compliance with the build-out schedule.

After completion of the transition period, the FCC will reclaim the non-digital channels. Congress recently passed legislation establishing a hard deadline of February 17, 2009 by which broadcasters must cease using their analog channel. There can be no

assurance that the stations we own or program will be fully transitioned to digital broadcasts by this deadline. A station s failure to meet the deadline could result in a loss of interference protection or the applicable FCC license, adversely impacting the revenues of our owned and programmed stations.

Implementation of digital television has imposed substantial additional costs on television stations because of the need to replace equipment and because some stations will need to operate at higher utility costs. There can be no assurance that our television stations will be able to increase revenue to offset such costs. In addition, the FCC has proposed imposing new public interest requirements on television licensees in exchange for their receipt of DTV channels.

There is considerable uncertainty about the final form of the FCC digital regulations. Even so, we believe that these new developments may have the following effects on us:

Reclamation of analog channels. Analog broadcasters are required to cease operation on their assigned analog spectrum by February 17, 2009. At that time, the FCC will reclaim this spectrum from broadcasters and make it available to the entities who have been assigned the spectrum through FCC auctions. The FCC envisions that the reclaimed band will be used for a variety of broadcast-type applications including two-way interactive services and services using Coded Orthogonal Frequency Division Multiplexing technology. We cannot predict how the development of this spectrum will affect our television operations.

Digital must carry. In February 2005, the FCC adopted an order stating that cable television systems are not required to carry both a station s analog and digital signals during the digital transition. The same order also clarified that a cable system must only carry a broadcast station s primary video stream but is not required to carry any of the station s other programming streams in those situations where a station chooses to transmit multiple programming streams.

Cable television systems generally transmit our signals pursuant to permission granted by us in retransmission consent agreements. A material portion of these agreements for our analog signal have no definite term and may be terminated either by us or by the applicable cable television company on very short notice (usually 45 to 60 days). We generally have not provided the major cable television companies with the right to transmit our stations digital signals. We are currently engaged in negotiations with respect to these agreements with several major cable television companies and during 2005, we reached an agreement with Comcast, our nation s largest cable operator. A termination of our retransmission agreements would make it more difficult for our viewers to watch our programming and could result in lower ratings and a negative financial impact on us.

Multi-Channel Digital Broadcasting. FCC rules allow broadcasters to transmit additional digital signals within the spectrum allocated to each FCC license holder. We are currently broadcasting a single digital signal for each of our television stations. In May, 2006 we will begin broadcasting a second digital signal in Baltimore, Maryland.

Capital and operating costs. We have incurred and will continue to incur costs to replace equipment in our stations in order to provide digital television. Some of our stations will also incur increased utilities costs as a result of broadcasting with analog and digital signals during the transition period.

Children s programming. In 2004, the FCC established children s educational and informational programming obligations for digital multicast broadcasters and placed restrictions on the increasing commercialization of children s programming on both analog and digital broadcast and cable television systems. In addition to imposing its limit as to the amount of commercial matter in children s programming (10.5 minutes per hour on weekends and 12 minutes per hour on weekdays) on all digital or video programming, free or pay, directed to children 12 years old and younger, the FCC also mandated that digital broadcasters air an additional half hour of core children s programming per every increment of 1 to 28 hours of free video programming provided in addition to the main DTV program stream. The additional core children s programming requirement for digital broadcasters has not yet taken effect.

Emergency Alert System. In November 2005, the FCC adopted an order requiring that digital broadcasters comply with the FCC s present Emergency Alert System (EAS) rules. It also issued a further notice of proposed rulemaking seeking comments on what actions the FCC should take to expedite the development of a digitally based public alert and warning system. Any additional EAS requirements on digital broadcasters could increase our costs.

Restrictions on Broadcast Programming

Advertising of cigarettes and certain other tobacco products on broadcast stations has been banned for many years. Various states also restrict the advertising of alcoholic beverages and, from time to time, certain members of Congress have contemplated legislation to place restrictions on the advertisement of such alcoholic beverages. FCC rules also restrict the amount and type of advertising which can appear in a program broadcast primarily for an audience of children 12 years old and younger. In addition, the Federal Trade Commission issued guidelines in December 2003 and continues to provide advice to help media outlets voluntarily screen out weight loss product advertisements that are misleading.

The Communications Act and FCC rules also place restrictions on the broadcasting of advertisements by legally qualified candidates for elective office. Those restrictions state that:

stations must provide reasonable access for the purchase of time by legally qualified candidates for federal office;

stations must provide equal opportunities for the purchase of equivalent amounts of comparable broadcast time by opposing candidates for the same elective office; and

during the 45 days preceding a primary or primary run-off election and during the 60 days preceding a general or special election, legally qualified candidates for elective office may be charged no more than the station s lowest unit charge for the same class and amount of time for the same period.

It is a violation of federal law and FCC regulations to broadcast obscene or indecent programming. FCC licensees are, in general, responsible for the content of their broadcast programming, including content supplied by television networks. Accordingly, there is a risk of being fined as a result of our broadcast programming, including network programming. At the present time, the maximum forfeiture amount for the broadcast of indecent or obscene material is $32,500 for each violation. In the past few years, the FCC has intensified its scrutiny of allegedly indecent or obscene programming. The FCC s review of complaints regarding allegedly indecent or obscene network programming broadcast on some of our FOX, WB, NBC and ABC affiliates is delaying the grant of the applications for license renewal of those stations.

In 2005, the House of Representatives approved a bill raising the maximum forfeiture amount to $500,000 per violation, subject to some limitations. Additionally, the proposed law would expressly permit the FCC to consider such violations in the context of license renewal proceedings, proceedings for new licenses or permits and assignment or transfer of control proceedings. The proposed law would also require the FCC to commence a license revocation proceeding against a licensee after three violations. This legislation is currently in the Senate and we cannot predict the outcome.

On October 12, 2004, the FCC issued a Notice of Apparent Liability for Forfeiture (NAL) in the amount of $7,000 per station to virtually every FOX station, including the 15 FOX affiliates presently licensed to us, the four FOX affiliates programmed by us and one FOX affiliate we sold in 2005. The NAL alleged that the stations broadcast indecent material contained in an episode of a FOX network program that aired on April 7, 2003. We, as well as other parties including the FOX network, filed oppositions to the NAL. That proceeding is still pending. Although we cannot predict the outcome of that proceeding or the effect of any adverse outcome on the stations license renewal applications, the FOX network has agreed to indemnify its affiliates for the full amount of this liability.

Programming and Operation

General. The Communications Act requires broadcasters to serve the public interest. The FCC has relaxed or eliminated many of the more formalized procedures it had developed in the past to promote the broadcast of certain types of programming responsive to the needs of a station s community of license. FCC licensees continue to be required, however, to present programming that is responsive to the needs and interests of their communities and to maintain certain records demonstrating such responsiveness. Complaints from viewers concerning a station s programming may be considered by the FCC when it evaluates renewal applications of a licensee, although such complaints may be filed at any time and generally may be considered by the FCC at any time. Stations also must pay regulatory and application fees and follow various rules promulgated under the Communications Act that regulate, among other things, political advertising, sponsorship identifications, obscene and indecent broadcasts and technical operations, including limits on radio frequency radiation.

Indecency. It is a violation of federal law and FCC regulations to broadcast obscene or indecent programming. FCC licensees are, in general, responsible for the content of their broadcast programming, including that supplied by television networks. Accordingly, there is a risk of being fined as a result of our broadcast programming, including network programming. Currently the maximum forfeiture amount for the broadcast of indecent or obscene material is $32,500 for each violation. However, in 2005, the House of Representatives approved legislation with a $500,000 cap for indecent or obscene material. This legislation is currently in the Senate and we cannot predict the outcome.

Equal Employment Opportunity. On November 20, 2002, the FCC adopted rules, effective March 10, 2003, requiring licensees to create equal employment opportunity outreach programs and maintain records and make filings with the FCC evidencing such efforts. The FCC simultaneously released a notice of proposed rulemaking seeking comments on whether and how to apply these rules and policies to part-time positions, defined as less than 30 hours per week. That rulemaking is still pending.

Children s Television Programming. Television stations are required to broadcast a minimum of three hours per week of core children s educational programming, which the FCC defines as programming that:

has the significant purpose of serving the educational and informational needs of children 16 years of age and under;

is regularly scheduled weekly and at least 30 minutes in duration; and

is aired between the hours of 7:00 a.m. and 10:00 p.m. local time.

Furthermore, core children s educational programs, in order to qualify as such, are required to be identified as educational and informational programs over the air at the time they are broadcast and are required to be identified in the children s programming reports, which are required to be placed quarterly in stations public inspection files and filed quarterly with the FCC.

Additionally, television stations are required to identify and provide information concerning core children s programming to publishers of program guides. The FCC is also applying its children s commercial limits and policies to all digital video programming directed to children ages 12 and under. In 2004, the FCC concluded that a digital broadcaster must air an additional half hour of core children s programming per every increment of 1 to 28 hours of free video programming provided in addition to the main DTV program stream. The additional children s programming requirement for digital broadcasters has not yet taken effect.

In 2004, the FCC initiated a notice of inquiry seeking comments on issues relating to the presentation of violent programming on television and its impact on children. That proceeding is still pending.

Television Program Content. The television industry has developed an FCC approved ratings system that is designed to provide parents with information regarding the content of the programming being aired. Furthermore, the FCC requires certain television sets to include the so-called V-chip , a computer chip that allows the blocking of rated programming.

In 2004, the FCC initiated a notice of inquiry seeking comments on what actions, if any, it should take to ensure that licensees air programming that is responsive to the interests and needs of their communities of license. That proceeding is still pending.

Closed Captioning. Effective January 1, 2006, all new nonexempt analog and digital English language programming was required to be captioned. Additionally, the FCC, in July 2005, initiated a rulemaking to determine whether any revisions should be made to enhance the effectiveness of its closed captioning rules, including monitoring compliance and the establishment of a base forfeiture amount for noncompliance.

Pending Matters

Congress and the FCC have under consideration and in the future may consider and adopt, new laws, regulations and policies regarding a wide variety of matters that could affect, directly or indirectly, the operation, ownership and profitability of our broadcast stations, result in the loss of audience share and advertising revenues for our broadcast stations and affect our ability to acquire additional broadcast stations or finance such acquisitions.

Other matters that could affect our broadcast properties include technological innovations and developments generally affecting competition in the mass communications industry, such as direct television broadcast satellite service, Class A television service, the continued establishment of wireless cable systems and low power television stations, digital television technologies, the internet and the advent of telephone company participation in the provision of video programming service.

Other Considerations

The preceding summary is not a complete discussion of all provisions of the Communications Act, the 1996 Act or other congressional acts or of the regulations and policies of the FCC. For further information, reference should be made to the Communications Act, the 1996 Act, other congressional acts and regulations and public notices circulated from time to time by the FCC. There are additional regulations and policies of the FCC and other federal agencies that govern political broadcasts, advertising, equal employment opportunity and other matters affecting our business and operations.

ENVIRONMENTAL REGULATION

Prior to our ownership or operation of our facilities, substances or waste that are or might be considered hazardous under applicable environmental laws may have been generated, used, stored or disposed of at certain of those facilities. In addition, environmental conditions relating to the soil and groundwater at or under our facilities may be affected by the proximity of nearby properties that have generated, used, stored or disposed of hazardous substances. As a result, it is possible that we could become subject to environmental liabilities in the future in connection with these facilities under applicable environmental laws and regulations. Although we believe that we are in substantial compliance with such environmental requirements and have not in the past been required to incur significant costs in connection therewith, there can be no assurance that our costs to comply with such requirements will not increase in the future. We presently believe that none of our properties have any condition that is likely to have a material adverse effect on our consolidated balance sheets, consolidated statements of operations or consolidated statements of cash flows.

COMPETITION

Our television stations compete for audience share and advertising revenue with other television stations in their respective designated market areas (DMAs), as well as with other advertising media such as radio, newspapers, magazines, outdoor advertising, transit advertising, telecommunications providers, internet, yellow page directories, direct mail, satellite television, local cable television and wireless video. Some competitors are part of larger organizations with substantially greater financial, technical and other resources than we have. Other factors that are material to a television station s competitive position include signal coverage, local program acceptance, network affiliation, audience characteristics and assigned broadcast frequency.

Television Competition. Competition in the television broadcasting industry occurs primarily in individual DMAs. Generally, a television broadcasting station in one DMA does not compete with stations in other DMAs. Our television stations are located in highly competitive DMAs. In addition, certain of our DMAs are overlapped by over-the-air and cable carriage of stations in adjacent DMAs, which tends to spread viewership and advertising expenditures over a larger number of television stations.

Broadcast television stations compete for advertising revenues primarily with other broadcast television stations, radio stations, cable channels, cable system operators and satellite providers serving the same market, as well as with newspapers, the internet, yellow page directories, direct mail, outdoor advertising operators and transit advertisers. Television stations compete for audience share primarily on the basis of program popularity, which has a direct effect on advertising rates. Our affiliated stations are largely dependent upon the performance of the networks programs in attracting viewers. Non-network time periods are programmed by the station primarily with syndicated programs purchased for cash, cash and barter or barter-only, as well as through self-produced news, public affairs programs, live local sporting events and other entertainment programming.

Television advertising rates are based upon factors which include the size of the DMA in which the station operates, a program s popularity among the viewers that an advertiser wishes to attract, the number of advertisers competing for the available time, the demographic makeup of the DMA served by the station, the availability of alternative advertising media in the DMA including radio, cable, satellite, internet, newspapers and yellow page directories, direct mail, the aggressiveness and knowledge of the sales forces in the DMA and development of projects, features and programs that tie advertiser messages to programming. We believe that our sales and programming strategies allow us to compete effectively for advertising revenues within our DMAs.

The broadcasting industry is continuously faced with technical changes and innovations, competing entertainment and communications media, changes in labor conditions and governmental restrictions or actions of federal regulatory bodies, including the FCC, any of which could possibly have a material affect on a television station s operations and profits. For instance, the FCC has established Class A television service for qualifying low power television stations. This Class A designation provides low power television stations, which ordinarily have no broadcast frequency rights when the low power signal conflicts with a signal from any full power stations, some additional frequency rights. These rights may allow low power stations to compete more effectively with full power stations. We cannot predict the effect of increased competition from Class A television stations in markets where we have full power television stations.

There are sources of video service other than conventional television stations, the most common being cable television, which can increase competition for a broadcast television station by bringing into its market distant broadcasting signals. These signals, not otherwise available to the station s audience, serve as a distribution system for national satellite-delivered programming and other non-broadcast programming originated on a cable system and selling advertising time to local advertisers. Other principal sources of competition include home video exhibition and Direct Broadcast Satellite (DBS) services and Broadband Radio Service (BRS). DBS and cable operators, in particular, are competing more aggressively than in the past for advertising revenues. This competition could adversely affect our stations revenues and performance in the future. In addition, SHVIA allows, on a limited basis, satellite carriers to provide distant stations signals with the same network affiliation as our stations to their subscribers.

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Moreover, technology advances and regulatory changes affecting programming delivery though fiber optic telephone lines and video compression could lower entry barriers for new video channels and encourage the development of increasingly specialized niche programming. Telephone companies are permitted to provide video distribution services via radio communication, on a common carrier basis, as cable systems or as open video systems, each pursuant to different regulatory schemes. Additionally, in January 2004, the FCC concluded an auction for licenses operating in the 12 GHz band that can be used to provide multi-channel video programming distribution. Those licenses were granted in July 2004. We are unable to predict what other video technologies might be considered in the future or the effect that technological and regulatory changes will have on the broadcast television industry and on the future profitability and value of a particular broadcast television station.

While DTV technology is currently available in most viewing markets, the transition of our viewers from the current analog broadcast format to a digital format will take effect no later than February 17, 2009. We are currently exploring whether or not television broadcasting will be enhanced significantly by the development and increased availability of DTV technology. This technology has the potential to permit us to provide viewers multiple channels of digital television over each of our existing standard channels, to provide certain programming in high definition television format and to deliver various forms of data, including data on the internet, to PCs and handheld devices. These additional capabilities may provide us with additional sources of revenue, as well as additional competition. In addition, emerging technologies that allow viewers to digitally record and play back television programming have increased the number of hours people spend watching television.

We also compete for programming, which involves negotiating with national program distributors or syndicators that sell first-run and rerun packages of programming. Our stations compete for exclusive access to those programs against in-market broadcast station competitors for syndicated products. Although historically cable systems did not generally compete with local stations for programming, more recently national cable networks have more frequently acquired programs that would have otherwise been offered to local television stations. Public broadcasting stations generally compete with commercial broadcasters for viewers but not for advertising dollars.

We believe we compete favorably against other television stations because of our management skill and experience, our ability historically to generate revenue share greater than our audience share, our network affiliations and our local program acceptance. In addition, we believe that we benefit from the operation of multiple broadcast properties, affording us certain non-quantifiable economies of scale and competitive advantages in the purchase of programming.

EMPLOYEES

As of March 9, 2006, we had approximately 2,862 employees. Approximately 196 employees at six of our television stations are represented by labor unions under certain collective bargaining agreements. We have not experienced any significant labor problems and consider our overall labor relations to be good.

AVAILABLE INFORMATION

Our internet address is: www.sbgi.net. We make available, free of charge through our website, our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act of 1934 as soon as reasonably practicable after such documents are electronically submitted to the SEC. In addition, a replay of each of our quarterly earnings conference calls is available on our website until the subsequent quarter s earnings call.

ITEM 1A. RISK FACTORS

You should carefully consider the risks described below before investing in our publicly traded securities. Our business is also subject to the risks that affect many other companies such as general economic conditions, geopolitical events, competition, technological obsolescence and employee relations. The risks described below, along with risks not currently known to us or that we currently believe are immaterial, may impair our business operations and our liquidity in an adverse way.

Our advertising revenue can vary substantially from period to period based on many factors beyond our control. This volatility affects our operating results and may reduce our ability to repay indebtedness or reduce the market value of our securities.

We rely on sales of advertising time for substantially all of our revenues and, as a result, our operating results are sensitive to the amount of advertising revenue we generate. If we generate less revenue, it may be more difficult for us to repay our indebtedness and the value of our business may decline. Our ability to sell advertising time depends on:

the levels of automobile advertising, which generally represents about one fourth of our advertising revenue;

the health of the economy in the area where our television stations are located and in the nation as a whole;

the popularity of our programming;

changes in the makeup of the population in the areas where our stations are located;

the activities of our competitors, including increased competition from other forms of advertising-based mediums, such as other broadcast television stations, radio stations, satellite television providers, internet content providers, cable system operators and telecommunication providers serving in the same markets; and

other factors that may be beyond our control.

Our substantial indebtedness could adversely affect our financial condition and prevent us from fulfilling our debt obligations.

We have a high level of debt (totaling $1.4 billion at December 31, 2005) compared to the book value of shareholders equity of $222.0 million on the same date. Our relatively high level of debt poses the following risks, particularly in periods of declining revenues:

we use a significant portion of our cash flow to pay principal and interest on our outstanding debt, limiting the amount available for working capital, capital expenditures, dividends and other general corporate purposes;

our lenders may not be as willing to lend additional amounts to us for future working capital needs, additional acquisitions or other purposes;

the interest rate under the Bank Credit Agreement is a floating rate and will increase as interest rates increase. This will reduce the funds available to repay our obligations and for operations and future business opportunities and will make us more vulnerable to the consequences of our leveraged capital structure;

if our cash flow were inadequate to make interest and principal payments, we might have to refinance our indebtedness or sell one or more of our stations to reduce debt service obligations; and

our ability to finance working capital needs and general corporate purposes for the public and private markets, as well as the associated cost of funding is dependent, in part, by our credit ratings. As of December 31, 2005, our credit ratings, as assigned by Moody s Investor Services (Moody s) and Standard & Poor s Ratings Services (S&P) were:

	Moody s	**S&P**
Senior Secured Credit Facilities	Ba1	BB
Senior Implied	Ba3	
Corporate Credit		BB-
Senior Subordinated Notes	B2	B
Convertible Senior Notes	B3	B

The credit ratings previously stated are not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal by the assigning rating organization. Each rating should be evaluated independently of any other rating.

We may be more vulnerable to adverse economic conditions than less leveraged competitors and thus, less able to withstand competitive pressures.

Any of these events could reduce our ability to generate cash available for investment or debt repayment or to make improvements or respond to events that would enhance profitability.

We may be able to incur significantly more debt in the future, which will increase each of the foregoing risks related to our indebtedness.

At December 31, 2005, we had $167.5 million available (subject to certain borrowing conditions) for additional borrowings under the Bank Credit Agreement, all of which was available under our current borrowing capacity. In addition, under the terms of our debt instruments, we may be able to incur substantial additional indebtedness in the future, including additional senior debt and in some cases, secured debt. Provided we meet certain financial and other covenants, the terms of the indentures governing our outstanding notes do not prohibit us from incurring such additional indebtedness. If we incur additional indebtedness, the risks described above relating to having substantial debt could intensify.

We must purchase television programming in advance based on expectations about future revenues. Actual revenues may be lower than our expectations. If this happens, we could experience losses that may make our securities less valuable.

One of our most significant costs is television programming and our ability to generate revenue to cover this cost may affect the value of our securities. If a particular program is not popular in relation to its costs, we may not be able to sell enough advertising time to cover the costs of the program. Since we generally purchase programming content from others rather than produce it ourselves, we have limited control over the costs of the programming. We usually must purchase programming several years in advance and may have to commit to purchase more than one year s worth of programming. Finally, we may replace programs that are doing poorly before we have recaptured any significant portion of the costs we incurred or before we have fully amortized the costs. Any of these factors could reduce our revenues or otherwise cause our costs to escalate relative to revenues. These factors are exacerbated during a weak advertising market. Additionally, our business is subject to the popularity of the programs provided by the networks with which we have network affiliation agreements or which provide us programming. Excluding political revenue, each of our affiliation groups experienced revenue increases in 2004. In 2005, some affiliates experienced slight declines while others had increases in revenue. Total revenue, excluding political, in 2005 increased 1.6% from 2004. We cannot predict the success of our affiliates in the future.

Promises we have made to our lenders limit our ability to take actions that could increase the value of our securities or may require us to take actions that decrease the value of our securities.

Our existing financing agreements prevent us from taking certain actions and require us to meet certain tests. These restrictions and tests may require us to conduct our business in ways that make it more difficult for us to repay our indebtedness or decrease the value of our business. These restrictions and tests include the following:

restrictions on additional debt;

restrictions on our ability to pledge our assets as security for our indebtedness;

restrictions on payment of dividends, the repurchase of stock and other payments relating to capital stock;

restrictions on some sales of assets and the use of proceeds from asset sales;

restrictions on mergers and other acquisitions, satisfaction of conditions for acquisitions and a limit on the total amount of acquisitions without the consent of bank lenders;

restrictions on the type of business we and our subsidiaries may be in;

restrictions on the type and amounts of investments we and our subsidiaries may make; and

financial ratio and condition tests including the ratio of earnings before interest, tax, depreciation and amortization, as adjusted (adjusted EBITDA) to total interest expense, the ratio of adjusted EBITDA to certain of our fixed expenses and the ratio of indebtedness to adjusted EBITDA.

Future financing arrangements may contain additional restrictions and tests. All of these restrictive covenants may limit our ability to pursue our business strategies, prevent us from taking action that could increase the value of our securities or may require actions that decrease the value of our securities. In addition, we may fail to meet the tests and thereby default on one or more of our obligations (particularly if the economy were to soften and thereby reduces our advertising revenues). If we default on our obligations, creditors could require immediate payment of the obligations or foreclose on collateral. If this happens, we could be forced to sell assets or take other actions that could significantly reduce the value of our securities and we may not have sufficient assets or funds to pay our debt obligations.

We may lose a large amount of programming if a network terminates its affiliation with us, which could increase our costs and/or reduce revenue.

Network Affiliation Agreements

Of the 58 television stations that we own and operate, or to which we provide programming services or sales services, 56 currently operate as affiliates of FOX (19 stations), WB (18 stations), ABC (10 stations), UPN (6 stations), CBS (2 stations) and NBC (1 station). The remaining two stations are independent. The networks produce and distribute programming in exchange for each station s commitment to air the programming at specified times and for commercial announcement time during programming.

On June 30, 2005, the affiliation agreements for our FOX affiliates expired. On August 22, 2005, we entered into an agreement that caused these expired agreements to continue in full force and effect until terminated by either party. We are currently in negotiations to renew the FOX affiliation agreements on a long-term basis. At this time, we cannot predict the final outcome of these negotiations and any impact they may have on our consolidated balance sheets, consolidated statements of operations or consolidated statements of cash flows. As of December 31, 2005, the aggregate net book value of these affiliation agreements was $37.3 million.

On October 24, 2005, NBC informed us that they intend to terminate our affiliation with WTWC-TV in Tallahassee, Florida. This notice is contractually required to avoid automatic renewal of the existing agreement which expires January 1, 2007. NBC has stated it is willing to continue its affiliation with WTWC if revised terms and conditions can be agreed upon. As of December 31, 2005, the net book value of this affiliation agreement was $2.3 million. We continue to negotiate with NBC regarding our affiliation agreement and, at this time, we cannot predict the final outcome of these negotiations and any impact they may have on our consolidated balance sheets, consolidated statements of operations or consolidated statements of cash flows.

On January 24, 2006, CBS Corporation (CBS) and Warner Bros. Entertainment (Warner Bros.) announced their intent to merge the operations of their respective networks, UPN and The WB, into a broadcasting network to be called The CW Television Network. On March 2, 2006, we announced that we agreed with Twentieth Television, Inc. to air MyNetworkTV primetime programming on 17 of our stations. At this time, we cannot predict which of our stations will be affiliated with The CW, nor can we predict whether CBS or Warner Bros. will honor certain agreements, including affiliation agreements, that were made with us in the past. The aggregate net book value of our UPN and WB affiliation agreements was $9.0 million as of December 31, 2005. Refer to our *Markets and Stations* table on page 5 and *Note 18. Subsequent Events,* in the Notes to our Consolidated Financial Statements for additional information regarding these announcements.

The non-renewal or termination of any of our other network affiliation agreements would prevent us from being able to carry programming of the relevant network. This loss of programming would require us to obtain replacement programming, which may involve higher costs and which may not be as attractive to our target audiences, resulting in reduced revenues. Upon the termination of any of the above affiliation agreements, we would be required to establish a new affiliation agreement with another network or operate as an independent station. At such time, the remaining value of the network affiliation asset could become impaired and we would be required to write down the value of the asset. At this time, we cannot predict the final outcome of future negotiations and what impact, if any, they may have on our consolidated balance sheets, consolidated statements of operations or consolidated statements of cash flows.

A change in a critical accounting estimate that affects the accounting treatment of goodwill and FCC licenses could cause material future losses due to asset impairment.

In June 2001, the Financial Accounting Standards Board (FASB) approved SFAS No. 142, *Goodwill and Other Intangible Assets* (SFAS 142). SFAS 142 requires companies to cease amortizing goodwill and certain other intangible assets including FCC licenses. SFAS 142 also establishes a method of testing goodwill and FCC licenses for impairment on an annual basis, or on an interim basis if an event occurs that would reduce the fair value of a reporting unit below its carrying value.

We test our goodwill and FCC licenses for impairment. To perform this test, we estimate the fair values of our station assets and liabilities using a combination of observed prices paid for similar assets and liabilities, discounted cash flow models and

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appraisals. We make certain critical estimates about the future revenue growth rates within each of our markets as well as the discount rates that would be used by market participants in an arms-length transaction. If these growth rates decline or if the discount rate increases, our goodwill and/or FCC licenses could be impaired. An impairment of some or all of the value of these assets could result in a material effect on the consolidated statements of operations.

Key officers and directors have financial interests that are different and sometimes opposite our own and we may engage in transactions with these officers and directors that may benefit them to the detriment of other securityholders.

Some of our officers, directors and majority shareholders own stock or partnership interests in businesses that engage in television broadcasting, do business with us or otherwise do business that conflicts with our interests. They may transact some business with us upon approval by the independent members of our Board of Directors even if there is a conflict of interest or they may engage in business competitive to our business and those transactions may benefit the officers, directors or majority shareholders to the detriment of our securityholders. David D. Smith, Frederick G. Smith, and J. Duncan Smith are each an officer and director of Sinclair and Robert E. Smith is a director of Sinclair. Together, the Smiths hold shares of our common stock that control the outcome of most matters submitted to a vote of shareholders. The Smiths own a controlling interest in a television station which we program pursuant to an LMA. The Smiths also own businesses that lease real property and tower space to us and engage in other transactions with us. David D. Smith, Frederick G. Smith, J. Duncan Smith, Robert E. Smith and David B. Amy, our Executive Vice President and Chief Financial Officer, together own less than 2.5% of Allegiance Capital Limited Partnership, a limited partnership in which we hold a 87.5% interest. Also, David D. Smith, Frederick G. Smith, J. Duncan Smith and Robert E. Smith together own less than 1.0% of the stock of G1440, a company of which we own approximately 94.0% and David D. Smith owns approximately 0.1% of Acrodyne Communications, Inc., a company of which we own approximately 82.3%. We can give no assurance that these transactions or any transactions that we may enter into in the future with our officers, directors or majority shareholders, have been, or will be, negotiated on terms as favorable to us as we would obtain from unrelated parties.

Maryland law and our financing agreements limit the extent to which our officers, directors and majority shareholders may transact business with us and pursue business opportunities that we might pursue. These limitations do not, however, prohibit all such transactions.

For additional information related to our investments, see *Note 11. Related Party Transactions,* in the Notes to our Consolidated Financial Statements.

The Smiths exercise control over most matters submitted to a shareholder vote and may have interests that differ from yours. They may, therefore, take actions that are not in the interests of other securityholders.

David D. Smith, Frederick G. Smith, J. Duncan Smith and Robert E. Smith hold shares representing approximately 85% of the common stock voting rights and, therefore, control the outcome of most matters submitted to a vote of shareholders, including, but not limited to, electing directors, adopting amendments to our certificate of incorporation and approving corporate transactions. The Smiths hold substantially all of the Class B Common Stock, which have ten votes per share. Our Class A Common Stock has only one vote per share. In addition, the Smiths hold half our board of directors seats and, therefore, have the power to exert significant influence over our corporate management and policies. The Smiths have entered into a stockholders agreement pursuant to which they have agreed to vote for each other as candidates for election to the board of directors until June 13, 2015.

Circumstances may occur in which the interests of the Smiths, as the controlling equity holders, could be in conflict with the interests of other securityholders and the Smiths would have the ability to cause us to take actions in their interest. In addition, the Smiths could pursue acquisitions, divestitures or other transactions that, in their judgment could enhance their equity investment, even though such transactions might involve risks to our other securityholders. (See *Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters* and *Item 13. Certain Relationships and Related Transactions*.)

Certain features of our capital structure that discourage others from attempting to acquire our company may prevent our securityholders from receiving a premium on their securities or result in a lower price for our securities.

The control the Smiths have over shareholder votes may discourage other parties from trying to acquire us. Anyone trying to acquire us would likely offer to pay more for shares of Class A Common Stock than the amount those shares were trading for in the open market at the time of the offer. If the voting rights of the Smiths discourage such takeover attempts, shareholders may be denied the opportunity to receive such a premium. The general level of prices for Class A Common Stock might also be lower than it would otherwise be if these deterrents to takeovers did not exist.

Federal regulation of the broadcasting industry limits our operating flexibility, which may affect our ability to generate revenue or reduce our costs.

The FCC regulates our business, just as it does all other companies in the broadcasting industry. We must ask the FCC s approval whenever we need a new license, seek to renew, assign or modify a license, purchase a new station, sell an existing station or transfer the control of one of our subsidiaries that holds a license. Our FCC licenses and those of the stations we program pursuant to LMAs are critical to our operations; we cannot operate without them. We cannot be certain that the FCC will renew these licenses in the future or approve new acquisitions. If licenses are not renewed or acquisitions approved, we may lose revenue that we otherwise could have earned.

In addition, Congress and the FCC may, in the future, adopt new laws, regulations and policies regarding a wide variety of matters (including technological changes) that could, directly or indirectly, materially and adversely affect the operation and ownership of our broadcast properties. (See *Item 1. Business.*)

It is a violation of federal law and FCC regulations to broadcast obscene or indecent programming. FCC licensees are, in general, responsible for the content of their broadcast programming, including content supplied by television networks. Accordingly, there is a risk of being fined as a result of our broadcast programming, including network programming. The maximum forfeiture amount for the broadcast of indecent or obscene material is $32,500 for each violation. In the past few years, the FCC has intensified its scrutiny of allegedly indecent and obscene programming. The FCC s review of complaints regarding allegedly indecent or obscene network programming broadcast on some of our FOX and WB affiliates may be delaying the grant of the applications for license renewal of those stations.

In 2005, the House of Representatives approved a bill raising the maximum forfeiture amount to $500,000 per violation, subject to some limitations. Additionally, the proposed law would expressly permit the FCC to consider such violations in the context of license renewal proceedings, proceedings for new licenses or permits and assignment or transfer of control proceedings. The proposed law would also require the FCC to commence a license revocation proceeding against a licensee after three violations. This legislation is currently in the Senate and we cannot predict the outcome.

On October 12, 2004, the FCC issued a Notice of Apparent Liability for Forfeiture (NAL) in the amount of $7,000 per station to virtually every FOX station, including the 15 FOX affiliates presently licensed to us, the four FOX affiliates programmed by us and one FOX affiliate we sold in 2005. The NAL alleged that the stations broadcast indecent material contained in an episode of a FOX network program that aired on April 7, 2003. We, as well as other parties including the FOX network, filed oppositions to the NAL. That proceeding is still pending. Although we cannot predict the outcome of that proceeding or the effect of any adverse outcome on the stations license renewal applications, the FOX network has agreed to indemnify its affiliates for the full amount of this liability.

The FCC s multiple ownership rules limit our ability to operate multiple television stations in some markets and may result in a reduction in our revenue or prevent us from reducing costs. Changes in these rules may threaten our existing strategic approach to certain television markets.

<u>Changes in Rules on Television Ownership</u>

Congress passed a bill requiring the FCC to establish a national audience reach cap of 39% and President Bush signed the bill into law on January 23, 2004. This law permits broadcast television owners to own more television stations nationally, potentially affecting our competitive position.

In June 2003, the FCC adopted new multiple ownership rules. In July 2004, the Court of Appeals for the Third Circuit issued a decision which upheld a portion of such rules and remanded the matter to the FCC for further justification of the rules. The court also issued a stay of the 2003 rules pending the remand. Several parties, including us, filed petitions with the Supreme Court of the United States seeking review of the Third Circuit decision, but the Supreme Court denied the petitions in June 2005. The FCC has not commenced its proceeding on remand. We cannot predict the outcome of that proceeding, which could significantly impact our business.

Changes in Rules on Local Marketing Agreements

Certain of our stations have entered into what have commonly been referred to as local marketing agreements or LMAs. One typical type of LMA is a programming agreement between two separately owned television stations serving the same market, whereby the licensee of one station programs substantial portions of the broadcast day and sells advertising time during such programming segments on the other licensee s station subject to the ultimate editorial and other controls being exercised by the latter licensee. We believe these arrangements allow us to reduce our operating expenses and enhance profitability.

Under the FCC ownership rules adopted in 2003, we would be allowed to continue to program most of the stations with which we have an LMA. In the absence of a waiver, the 2003 ownership rules would require us to terminate or modify three of our LMAs in markets where both the station we own and the station with which we have an LMA are ranked among the top four stations in their particular designated market area. The FCC s 2003 ownership rules include specific provisions permitting waivers of this top four restriction . Although there can be no assurances, we have studied the application of the 2003 ownership rules to our markets and believe we are qualified for waivers. The effective date of the 2003 ownership rules has been stayed by the U. S. Court of Appeals for the Third Circuit and the rules are on remand to the FCC. Several parties, including us, filed petitions with the Supreme Court of the United States seeking review of the Third Circuit decision, but the Supreme Court denied the petitions in June 2005. The FCC has not commenced its proceeding on remand. We cannot predict the outcome of that proceeding, which could significantly impact our business.

When the FCC decided to attribute LMAs for ownership purposes in 1999, it grandfathered our LMAs that were entered into prior to November 5, 1996, permitting the applicable stations to continue operations pursuant to the LMAs until the conclusion of the FCC s 2004 biennial review. The FCC stated it would conduct a case-by-case review of grandfathered LMAs and assess the appropriateness of extending the grandfathering periods. Subsequently, the FCC invited comments as to whether, instead of beginning the review of the grandfathered LMAs in 2004, it should do so in 2006. The FCC has not initiated any such review of grandfathered LMAs and we cannot predict when the FCC will do so.

Because the effective date of the 2003 ownership rules has been stayed and, in connection with the adoption of those rules, the FCC concluded the old rules could not be justified as necessary to the public interest, we have taken the position that an issue exists regarding whether the FCC has any current legal right to enforce any rules prohibiting the acquisition of television stations. The FCC, however, dismissed our applications to acquire certain LMA stations. We filed an application for review of that decision, which is still pending. In 2005, we filed a petition with the U. S. Court of Appeals for the D.C. Circuit requesting that the Court direct the FCC to take final action on our applications, but that petition was denied. We recently submitted a motion to the FCC requesting that it take final action on our applications and that request is pending.

On November 15, 1999, we entered into a plan and agreement of merger to acquire through merger WBSC-TV (formerly WFBC-TV) in Anderson, South Carolina from Cunningham Broadcasting Corporation (Cunningham), but that transaction was denied by the FCC. In light of the change in the 2003 ownership rules, we have filed a petition for reconsideration with the FCC and amended our application to acquire the license of WBSC-TV. We also filed applications in November 2003 to acquire the license assets of the remaining five Cunningham stations: WRGT-TV, Dayton, Ohio; WTAT-TV, Charleston, South Carolina; WVAH-TV, Charleston, West Virginia; WNUV-TV, Baltimore, Maryland; and WTTE-TV, Columbus, Ohio. The Rainbow/PUSH Coalition (Rainbow/PUSH) filed a petition to deny these five applications and to revoke all of our licenses. The FCC dismissed our applications in light of the stay of the 2003 rules and also denied the Rainbow/PUSH petition. Rainbow/PUSH filed a petition for reconsideration of that denial and we filed an application for review of the dismissal, which may be impacted by the remand of the FCC s 2003 ownership rules. In 2005, we filed a petition with the U. S. Court of Appeals for the D. C. Circuit requesting that the Court direct the FCC to take final action on our applications, but that petition was dismissed. We recently submitted a motion to the FCC requesting that it take final action on our applications. Both the applications and the associated petition to deny are still pending. We believe the Rainbow/PUSH petition is without merit.

If we are required to terminate or modify our LMAs, our business could be affected in the following ways:

Losses on investments. As part of our LMA arrangements, we own the non-license assets used by the stations with which we have LMAs. If certain of these LMA arrangements are no longer permitted, we would be forced to sell these assets, restructure our agreements or find another use for them. If this happens, the market for such assets may not be as good as when we purchased them and, therefore, we cannot be certain that we will recoup our original investments.

Termination penalties. If the FCC requires us to modify or terminate existing LMAs before the terms of the LMAs expire, or under certain circumstances, we elect not to extend the terms of the LMAs, we may be forced to pay termination penalties under the terms of some of our LMAs. Any such termination penalties could be material.

Use of outsourcing agreements

In addition to our LMAs, we have entered into four (and may seek opportunities for additional) outsourcing agreements in which our stations provide or are provided various non-programming related services such as sales, operational and managerial services to or by other stations. Pursuant to these agreements, our station in Nashville, Tennessee currently provides services to another station in the market and other parties provide services to our stations in Peoria/Bloomington, Illinois, Cedar Rapids, Iowa and Rochester, New York. We believe this structure allows stations to achieve operational efficiencies and economies of scale, which should otherwise improve broadcast cash flow and competitive positions. While television joint sales agreements (JSAs) are not currently attributable, on August 2, 2004, the FCC released a notice of proposed rulemaking seeking comments on its tentative conclusion that television joint sales agreements should be attributable. We cannot predict the outcome of this proceeding, nor can we predict how any changes, together with possible changes to the ownership rules, would apply to our existing outsourcing agreements.

Failure of owner/licensee to exercise control

The FCC requires the owner/licensee of a station to maintain independent control over the programming and operations of the station. As a result, the owners/licensees of those stations with which we have LMAs or outsourcing agreements can exert their control in ways that may be counter to our interests, including the right to preempt or terminate programming in certain instances. The preemption and termination rights cause some uncertainty as to whether we will be able to air all of the programming that we have purchased and therefore, uncertainty about the advertising revenue that we will receive from such programming. In addition, if the FCC determines that the owner/licensee is not exercising sufficient control, it may penalize the owner licensee by a fine, revocation of the license for the station or a denial of the renewal of that license. Any one of these scenarios might result in a reduction of our cash flow and an increase in our operating costs or margins, especially the revocation of or denial of renewal of a license. In addition, penalties might also affect our qualifications to hold FCC licenses and thus put those licenses at risk.

Competition from other broadcasters or other content providers and changes in technology may cause a reduction in our advertising revenues and/or an increase in our operating costs.

The television industry is highly competitive and this competition can draw viewers and advertisers from our stations, which reduces our revenue or requires us to pay more for programming, which increases our costs. We face intense competition from the following:

New Technology and the subdivision of markets

Cable providers, direct broadcast satellite companies and telecommunication companies are developing new technology that allows them to transmit more channels on their existing equipment to highly targeted audiences, reducing the cost of creating channels and potentially leading to the division of the television industry into ever more specialized niche markets. Competitors who target programming to such sharply defined markets may gain an advantage over us for television advertising revenues. Lowering the cost of creating channels may also encourage new competitors to enter our markets and compete with us for advertising revenue. In addition, emerging technologies that will allow viewers to digitally record, store and play back television programming may decrease viewership of commercials and, as a result, lower our advertising revenues.

Types of competitors

We also face competition from rivals that may have greater resources than we have. These include:

- other local free over-the-air broadcast television and radio stations;
- telecommunication companies;
- cable and satellite system operators;
- print media providers such as newspapers and periodicals;
- internet providers; and
- competition from other emerging technologies.

Deregulation

The Telecommunications Act of 1996 and subsequent actions by the FCC have removed some limits on station ownership, allowing telephone, cable and some other companies to provide video services in competition with us. In addition, the FCC has reallocated a portion of the spectrum for new services including fixed and mobile wireless services and digital broadcast services. As a result of these changes, new companies are able to enter our markets and compete with us.

The commencement of the Iraq War resulted in a decline in advertising revenues and negatively impacted our operating results. Future conflicts may have a similar effect.

The commencement of the war in Iraq resulted in a reduction of advertising revenues as a result of uninterrupted news coverage and general economic uncertainty. During the first quarter of 2003, we experienced $2.2 million in advertiser cancellations and preemptions, which resulted in lower earnings than we would have experienced without this disruption. If the United States becomes engaged in similar conflicts in the future, they may have a similar adverse effect on our results of operations.

Unrelated third parties may claim that we infringe on their rights based on the nature and content of information posted on websites maintained by us.

We host internet services that enable individuals and businesses to exchange information, generate content, advertise products and services, conduct business and engage in various online activities. The law relating to the liability of providers of these online services for activities of their users is currently unsettled both within the United States and internationally. Claims may be brought against us for defamation, negligence, copyright or trademark infringement, unlawful activity, tort, including personal injury, fraud, or other theories based on the nature and content of information that we provide links to or that may be posted online or generated by our users. Our defense of such actions could be costly and involve significant time and attention of our management and other resources.

We have lost money in two of the last five years, and may continue to incur losses in the future, which may impair our ability to pay our debt obligations.

We reported earnings in 2005, 2004 and 2003, but we have incurred net losses in two of the last five years. Our losses are due to a variety of cash and non-cash expenses which may or may not recur. Our net losses may therefore continue indefinitely and as a result, we may not have sufficient funds to operate our business.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Generally, each of our stations has facilities consisting of offices, studios and tower sites. Transmitter and tower sites are located to provide maximum signal coverage of our stations markets. The following is a summary of our principal owned and leased real properties. We believe that no one property represents a material amount of the total properties owned or leased.

	OWNED	LEASED
Office and Studio Buildings	554,265 square feet	432,537 square feet
Office and Studio Land	371 acres	4 acres
Transmitter Building Sites	81,388 square feet	56,402 square feet
Transmitter and Tower Land	1,371 acres	3,533 acres

ITEM 3. LEGAL PROCEEDINGS

We are a party to lawsuits and claims from time to time in the ordinary course of business. Actions currently pending are in various preliminary stages and no 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 the outcome of our pending and threatened matters will not have a material adverse effect on our consolidated balance sheets, consolidated statements of operations or consolidated statements of cash flows.

Subsequent to our airing a news program in 2004, *POW Story: Politics, Pressure and the Media*, certain parties filed formal complaints against us and certain of our employees and directors with the Federal Election Commission (FEC). On June 13, 2005, the FEC concluded unanimously that neither we nor our employees or directors violated any campaign finance laws and that our broadcast activities were protected by press exemption.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of our shareholders during the fourth quarter of 2005.

PART II

ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our Class A Common Stock is listed for trading on the NASDAQ stock market under the symbol SBGI. Our Class B Common Stock is not traded on a market. The following tables set forth for the periods indicated the high and low closing sales prices on the NASDAQ stock market.

2005		**High**		**Low**
First Quarter	$	9.14	$	7.48
Second Quarter	$	9.13	$	7.45
Third Quarter	$	9.57	$	8.71
Fourth Quarter	$	10.00	$	8.22

2004		**High**		**Low**
First Quarter	$	15.03	$	12.05
Second Quarter	$	13.51	$	10.27
Third Quarter	$	10.34	$	7.16
Fourth Quarter	$	9.21	$	6.26

As of March 9, 2006, there were approximately 82 shareholders of record of our common stock. This number does not include beneficial owners holding shares through nominee names.

We did not repurchase any Class A Common Stock during 2005.

Dividend Policy

Future dividends on our common shares, if any, will be at the discretion of our Board of Directors and will depend on several factors including our results of operations, cash requirements and surplus, financial condition, covenant restrictions and other factors that the Board of Directors may deem relevant. Our current dividend of $0.10 per share per quarter is not in excess of any applicable restrictions or conditions contained within the indentures of our various senior subordinated notes. We expect to continue to pay this dividend in the foreseeable future.

In May 2004, we declared a quarterly cash dividend on our Class A and Class B Common Stock for the first time in our company s history. For the quarters ended June 30, 2004, September 30, 2004 and December 31, 2004, we paid dividends of $0.025 per share of our common stock. During 2005, the Board of Directors voted to increase that dividend on three occasions. The dividends declared were as follows:

For the quarter ended	Quarterly Dividend Per Share	Annual Dividend Per Share	Date dividends were paid
March 31, 2005	$ 0.050	$ 0.200	April 15, 2005
June 30, 2005	$ 0.075	$ 0.300	July 15, 2005
September 30, 2005	$ 0.075	$ 0.300	October 14, 2005
December 31, 2005	$ 0.100	$ 0.400	January 13, 2006

Convertible Bond Repurchases

During the fourth quarter, we repurchased, in the open market, $5.0 million of our 6.0% Convertible Debentures, due 2012 at face value.

ITEM 6. SELECTED FINANCIAL DATA

The selected consolidated financial data for the years ended December 31, 2005, 2004, 2003, 2002 and 2001 have been derived from our audited consolidated financial statements. The consolidated financial statements for the years ended December 31, 2005, 2004 and 2003 are included elsewhere in this report.

The information below should be read in conjunction with *Management s Discussion and Analysis of Financial Condition and Results of Operations* and the consolidated financial statements included elsewhere in this report.

STATEMENT OF OPERTIONS DATA

(in thousands, except per share data)

	Years Ended December 31,				
	2005	**2004**	**2003**	**2002**	**2001**
Statement of Operations Data:					
Net broadcast revenues (a)	$ 614,436	$ 634,609	$ 611,893	$ 621,561	$ 580,428
Revenues realized from station barter arrangements	55,034	57,814	58,845	57,318	50,773
Other operating divisions revenues	22,597	13,054	14,568	4,344	6,925
Total revenues	692,067	705,477	685,306	683,223	638,126
Station production expenses	152,196	154,731	147,626	137,109	139,069
Station selling, general and administrative expenses	137,586	145,660	130,889	127,695	124,684
Expenses realized from station barter arrangements	50,460	53,358	54,105	51,117	45,234
Depreciation and amortization (b) (c)	138,913	155,793	160,676	173,539	247,744
Stock-based compensation expense	1,701	1,594	1,391	1,288	1,461
Other operating divisions expenses	20,944	14,932	16,375	6,051	24,985
Corporate general and administrative expenses	20,812	21,160	19,531	17,797	18,622
Restructuring costs					3,700
Contract termination costs					5,135
Operating income	169,455	158,249	154,713	168,627	27,492
Interest expense (c)	(118,592)	(120,400)	(121,165)	(118,114)	(130,794)
Subsidiary trust minority interest expense (d)			(11,246)	(23,890)	(23,890)
Net (loss) gain from sale of assets	(80)	(52)	(452)	(54)	204
Unrealized gain (loss) from derivative instrument	21,778	29,388	17,354	(30,939)	(32,220)
Loss from extinguishment of debt	(1,021)	(2,453)	(15,187)	(15,362)	(22,010)
(Loss) income from equity and cost investees	(1,426)	1,100	1,193	(1,189)	(7,616)
Gain on insurance settlement	1,193	3,341			
Interest and other income	1,371	1,085	1,749	3,295	3,787
Impairment of goodwill		(44,055)			
Income (loss) from continuing operations before income taxes	72,678	26,203	26,959	(17,626)	(185,047)
Income tax (provision) benefit	(37,063)	(11,522)	(10,817)	7,498	58,865
Net income (loss) from continuing operations	35,615	14,681	16,142	(10,128)	(126,182)
Discontinued Operations:					
	5,671	9,341	8,250	4,519	(1,540)

Income (loss) from discontinued operations, net of related income taxes										
Gain on sale of discontinued operations, net of related income taxes		146,024						7,519		
Cumulative adjustment for change in accounting principle, net of related income taxes								(566,404)		
Net income (loss)	$	187,310	$	24,022	$	24,392	$	(564,494)	$	(127,722)
Net income (loss) available to common shareholders	$	182,306	$	13,842	$	14,042	$	(574,844)	$	(138,072)
Dividends declared on common stock	$	8,547	$	6,403	$		$		$	
Per Share Data:										
Basic and diluted earnings (loss) per share from continuing operations	$	0.36	$	0.05	$	0.07	$	(0.24)	$	(1.62)
Basic and diluted earnings (loss) per share from discontinued operations	$	1.78	$	0.11	$	0.09	$	0.14	$	(0.02)
Basic and diluted loss per share from cumulative effect of change in accounting principle	$		$		$		$	(6.64)	$	
Basic and diluted earnings (loss) per common share	$	2.14	$	0.16	$	0.16	$	(6.74)	$	(1.64)
Cash dividends declared per common share	$	0.30	$	0.075	$		$		$	
Balance Sheet Data:										
Cash and cash equivalents	$	9,655	$	10,491	$	28,730	$	5,315	$	32,058
Total assets	$	2,285,653	$	2,465,663	$	2,567,106	$	2,599,713	$	3,394,237
Total debt (e)	$	1,479,843	$	1,639,615	$	1,729,921	$	1,548,050	$	1,681,721
HYTOPS (f)	$		$		$		$	200,000	$	200,000
Total shareholders equity	$	222,017	$	226,551	$	229,005	$	219,678	$	778,254

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(a) Net broadcast revenues are defined as broadcast revenues, net of agency commission.

(b) Depreciation and amortization includes amortization of program contract costs and net realizable value adjustments, depreciation and amortization of property and equipment and amortization of acquired intangible broadcasting assets, other assets and costs related to excess syndicated programming.

(c) Interest expense amounts for the years presented differ from prior years related to allocation of interest expense to discontinued operations. Accordingly, we reclassified interest expense to discontinued operations in the amounts of $3.6 million, $7.7 million, $6.8 million, $8.1 million and $12.7 million for the years ended December 31, 2005, 2004, 2003, 2002 and 2001, respectively.

(d) Subsidiary trust minority expense represents the distributions on the HYTOPS and amortization of deferred finance costs. See footnote (f).

(e) Total debt is defined as long-term debt, net of unamortized discount and capital lease obligations, including the current portion thereof. Total debt does not include HYTOPS or our preferred stock.

(f) HYTOPS represents our high yield trust originated preferred securities representing $200 million aggregate liquidation value, which were redeemed in 2003.

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following Management s Discussion and Analysis provides qualitative and quantitative information about our financial performance and condition and should be read in conjunction with our consolidated financial statements and the accompanying notes to those statements. This discussion consists of the following sections:

Executive Overview a description of our business, financial highlights from 2005, information about industry trends and sources of revenues and operating costs;

Critical Accounting Policies and Estimates a discussion of the accounting policies that are most important in understanding the assumptions and judgments incorporated in the consolidated financial statements and a summary of recent accounting pronouncements;

Results of Operations a summary of the components of our revenues by category and by network affiliation, a summary of other operating data and an analysis of our revenues and expenses for 2005, 2004 and 2003, including comparisons between years and expectations for 2006; and

Liquidity and Capital Resources a discussion of our primary sources of liquidity, an analysis of our cash flows from or used in operating activities, investing activities and financing activities, a discussion of our dividend policy and a summary of our contractual cash obligations and off-balance sheet arrangements.

EXECUTIVE OVERVIEW

We are one of the largest and most diversified television broadcasting companies in the United States. We currently own, provide programming and operating services pursuant to local marketing agreements (LMAs) or provide, or are provided, sales services pursuant to outsourcing agreements to 58 television stations in 36 markets. For the purpose of this report, these 58 stations are referred to as our stations. We currently have 11 duopoly markets where we own and operate two stations within the same market. We have nine LMA markets where, with one exception, we own and operate one station in the market and provide programming and operating services to, or by, another station within the market. In the remaining 16 markets, we own and operate a single television station.

We believe that owning duopolies and operating stations under LMAs enables us to accomplish two very important strategic business objectives: increasing our share of revenues available in each market and operating television stations more efficiently by minimizing costs. We constantly monitor revenue share and cost efficiencies and we aggressively pursue opportunities to improve both by using new technology and by sharing best practices among our station groups.

Sinclair Television Group, Inc. (STG), a wholly owned subsidiary of Sinclair Broadcast Group, Inc. (SBG), is the primary obligor under our existing Bank Credit Agreement, as amended, the 8.75% Senior Subordinated Notes, due 2011 and the 8% Senior Subordinated Notes, due 2012. Our Class A Common Stock, Class B Common Stock, the 6.0% Convertible Debentures, due 2012 and the 4.875% Convertible Senior Notes, due 2018 remain obligations or securities of SBG and are not obligations or securities of STG.

2005 Highlights

Operating income increased 7.1% in 2005 due to expense controls and greater efficiencies in our direct mail new business initiative;

Basic and diluted earnings per share were $2.14 in 2005 versus 2004 earnings per share of $0.16;

Local time sales, excluding political, increased 1.9% in 2005 as a result of our continued focus on new business initiatives including direct mail;

Retransmission fees increased $15.7 million over 2004, including a one-time adjustment of $2.9 million, and, based on current contracts, 2006 retransmission fee consideration is expected to be approximately $25.0 million as a result of our efforts to monetize our retransmission agreements;

Ratings increases at our ABC and FOX stations have resulted in revenue share growth in many of our markets;

We completed the sales of KOVR-TV (CBS) in Sacramento, California and KSMO-TV (WB) in Kansas City, Missouri during 2005 and we completed the sale of WEMT-TV (FOX) in Tri-Cities, Tennessee in January 2006;

We increased our annual dividend rate to $0.40 per common share at the end of 2005 from $0.10 per common share at the end of 2004;

We exchanged our 6% Convertible Preferred Stock for 6% Convertible Debentures, due 2012 in June 2005;

We entered into a news share arrangement with WIAT-TV, the CBS affiliate in Birmingham, Alabama, in order to improve the performance of our news operations of our WB affiliate WTTO-TV; and

We entered into a joint sales and services agreement with Nexstar Broadcasting in Rochester, New York combining their CBS station with our FOX station, in order to improve station performance.

We believe that all of these events will enhance shareholder value.

Industry Trends

Political advertising increases in even-numbered years, such as 2004, due to the advertising expenditures from candidates running in local and national elections. In every fourth year, such as 2004, political advertising is elevated further due to the presidential election;

Seasonal advertising increases in the second and fourth quarters due to the advertising expenditures related to the anticipation of certain seasonal and holiday spending by consumers;

Not all cable system operators and satellite providers pay for the analog or digital signals they receive from broadcasters, but we expect more operators and providers will be paying for these signals in the future as alternative competing video delivery providers increase;

Compensation from networks to their affiliates in exchange for broadcasting of network programming has significantly declined in recent years and may be eliminated in the future in lieu of alternative network and affiliate relationships;

Automotive-related advertising is a significant portion of our total net revenues in all periods presented and these revenues have been trending downward in recent years and we expect this trend to modify in 2006;

The Federal Communications Commission (FCC) has mandated that beginning February 17, 2009, all broadcast television stations must broadcast using only a digital signal and will no longer be able to broadcast using an analog signal;

The FCC has permitted broadcast television stations to use their digital spectrum for a wide variety of services including multi-channel broadcasts. We have announced that we plan to launch a second digital channel using WBFF-TV s digital signal in Baltimore, Maryland on May 1, 2006; and

Many broadcasters are enhancing/upgrading their websites to use the internet to deliver rich media content, such as newscasts and weather updates, to attract advertisers.

Sources of Revenues and Costs

Most of our revenues are generated from the transactional spot market rather than the traditional up front and scatter markets that networks access. These operating revenues are derived from local and national advertisers and, to a much lesser extent, from political advertisers. Recently, we have begun to generate revenues from our retransmission fee arrangements, which has replaced the steady decline in revenues from television network compensation. Our revenues from local advertisers have continued to trend upward and revenues from national advertisers have continued to trend downward when measured as a percentage of gross broadcast revenue. We believe this trend is the result of our focus on increasing local advertising revenues as a percentage of total advertising revenues, combined with a decrease in overall spending by national advertisers and an increase in the number of competitive media outlets providing national advertisers multiple alternatives in which to advertise their goods or services. Our efforts to mitigate the effect of these increasing competitive media outlets for national advertisers include continuing our efforts to increase local revenues and developing innovative sales and marketing strategies to sell traditional and non-traditional services to our advertisers.

Our primary operating expenses are syndicated program rights fees, commissions on revenues, employee salaries, news gathering and station promotional costs. Amortization and depreciation of costs other than goodwill associated with the acquisition of our stations and interest carrying charges are significant factors in determining our overall profitability.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

This discussion and analysis of our financial condition and results of operations is based on our consolidated financial statements which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amount of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates including those related to bad debts, program contract costs, intangible assets, income taxes, property and equipment, investments and derivative contracts. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. These estimates have been consistently applied for all years presented in this report and in the past we have not experienced material differences between these estimates and actual results. However, because future events and their effects cannot be determined with certainty, actual results could differ from our estimates and such differences could be material.

We have identified the policies below as critical to our business operations and the understanding of our results of operations. For a detailed discussion on the application of these and other accounting policies, see *Note 1. Summary of Significant Accounting Policies,* in the Notes to our Consolidated Financial Statements.

Revenue Recognition. Advertising revenues, net of agency and national representatives commissions, are recognized in the period during which time spots are aired. All other revenues are recognized as services are provided. The revenues realized from station barter arrangements are recorded as the programs are aired at the estimated fair value of the advertising airtime given in exchange for the program rights.

Allowance for Doubtful Accounts. We maintain an allowance for doubtful accounts for estimated losses resulting from extending credit to our customers that are unable to make required payments. If the economy and/or the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. For example, a 10% increase of the balance of our allowance for doubtful accounts as of December 31, 2005, would reduce net income available to common shareholders by approximately $0.5 million.

Program Contract Costs. We have agreements with distributors for the rights to televise programming over contract periods, which generally run from one to seven years. Contract payments are made in installments over terms that are generally equal to or shorter than the contract period. Each contract is recorded as an asset and a liability at an amount equal to its gross cash contractual commitment when the license period begins and the program is available for its first showing. The portion of program contracts which become payable within one year is reflected as a current liability in the consolidated balance sheets.

The programming rights are reflected in the consolidated balance sheets at the lower of unamortized cost or estimated net realizable value (NRV). Estimated NRVs are based on management s expectation of future advertising revenue, net of sales commissions, to be generated by the remaining program material available under the contract terms. Amortization of program contract costs is generally computed using a four year accelerated method or a straight-line method, depending on the length of the contract. Program contract costs estimated by management to be amortized within one year are classified as current assets. Payment of program contract liabilities are typically paid on a scheduled basis and are not reflected by adjustments for amortization or estimated NRV. If our estimate of future advertising revenues declines, then additional write downs to NRV may be required.

Valuation of Goodwill, Long-Lived Assets and Intangible Assets. We periodically evaluate our goodwill, broadcast licenses, long-lived assets and intangible assets for potential impairment indicators. Our judgments regarding the existence of impairment indicators are based on estimated future cash flows, market conditions, operating performance of our stations and legal factors. Future events could cause us to conclude that impairment indicators exist and that the net book value of long-lived assets and intangible assets is impaired. Any resulting impairment loss could have a material adverse impact on our consolidated balance sheets and consolidated statements of operations.

We have determined our broadcast licenses to be indefinite-lived intangible assets under SFAS No. 142, *Goodwill and Other Intangible Assets*, which requires such assets to be tested for impairment on an annual basis along with our goodwill. We test our broadcast licenses and goodwill by estimating the fair market value of these assets for each of our markets using a combination of quoted market prices, observed earnings multiples paid for comparable television station, discounted cash flow models and appraisals. We then compare the estimated fair market value to the book value of these assets to determine if an impairment exists. Our discounted cash flow model is based on our judgment of future market conditions within each designated marketing area, as well as discount rates that would be used by market participants in an arms-length transaction. Future events could cause us to conclude that market conditions have declined or discount rates have increased to the extent that our broadcast licenses and/or goodwill could be impaired. Any resulting impairment loss could have a material adverse impact on our consolidated balance sheets, consolidated statements of operations and consolidated statements of cash flows.

Income Taxes. We recognize deferred tax assets and liabilities based on the differences between the financial statements carrying amounts and the tax bases of assets and liabilities. We provide a valuation allowance for deferred tax assets relating to various federal and state net operating losses (NOL) that are carried forward based on the expected timing of the reversals of existing temporary book/tax basis differences, alternative tax strategies and projected future taxable income. As of December 31, 2005, valuation allowances have been provided for a substantial amount of our available federal and state NOLs. Although realization is not assured for the remaining deferred tax assets, we believe that it is more likely than not that they will be realized in the future. If we are unable to generate sufficient taxable income, or if there is a material change in our projected taxable income or if there is a change in our ability to use NOL carryforwards due to changes in federal and state laws, we will make any necessary adjustments to the valuation allowance. This may result in a substantial increase in our effective tax rate and a material adverse effect on our consolidated balance sheets, consolidated statements of operations and consolidated statements of cash flows. Management periodically performs a comprehensive review of our tax positions and accrues amounts for tax contingencies. Based on these reviews, the status of ongoing audits and the expiration of applicable statute of limitations, reserves are adjusted as necessary. The resolution of audits is unpredictable and could result in tax liabilities that are significantly higher or lower than that which has been provided by us. We believe our reserves are adequate.

Recent Accounting Pronouncements

On December 16, 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 123R, *Share-Based Payment* (SFAS 123R) as a revision to FASB Statement No. 123, *Accounting for Stock-Based Compensation*. We adopted SFAS 123R on January 1, 2006 and we will use the modified prospective transition to account for future share-based payments. SFAS 123R supersedes Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* (Opinion 25), and amends FASB Statement No. 95, *Statement of Cash Flows*. This standard requires that all share-based payments, including grants of employee stock options and our employee stock purchase plan, be recognized in the income statement as compensation expense based on their fair values.

On April 21, 2005, we accelerated the vesting of 390,039 stock options, which were all of our outstanding unvested options at that time. We accelerated the vesting of these options to prevent recognizing an expense of approximately $0.8 million (pre-tax) in future periods in accordance with SFAS 123R. The acceleration of the vesting effectively resulted in a modification to the original options. In accordance with FASB Interpretation No. 44, *Accounting for Certain Transactions Involving Stock Based Compensation*, we recorded an immaterial compensation charge based on the intrinsic value of the awards as measured on the modification date.

SFAS 123R will require us to recognize a compensation charge for our Employee Stock Purchase Plan. For the years ended December 31, 2005, 2004 and 2003, we estimate that this amount would have been $0.2 million, $0.3 million and $0.4 million, respectively.

In March 2005, the FASB issued FASB Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations, an Interpretation of FASB Statement No. 143* (FIN 47), which clarifies the term conditional asset retirement obligation as used in SFAS No. 143, *Accounting for Asset Retirement Obligations*. FIN 47 is effective for fiscal years ending after December 15, 2005 and we adopted it upon issuance. FIN 47 provides that an asset retirement obligation is conditional when either the timing and/or method of settling the obligation is conditioned on a future event. Accordingly, an entity is required to recognize a liability for the fair value of a conditional asset retirement obligation if the fair value of the liability can be reasonably estimated. Uncertainty about the timing and/or method of settlement of a conditional asset retirement obligation should be factored into the measurement of the liability when sufficient information exists. This interpretation also clarifies when an entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation. The adoption of FIN 47 did not have a material impact on our consolidated balance sheets, consolidated statements of operations or consolidated statements of cash flows.

In June 2005, the Emerging Issues Task Force (EITF) issued EITF No. 05-6, *Determining the Amortization Period for Leasehold Improvements* (EITF 05-6). EITF 05-6 addresses the amortization period for leasehold improvements acquired in a business combination or purchased subsequent to the inception of the lease. EITF 05-6 was effective for reporting periods beginning after July 1, 2005. The adoption of this pronouncement did not have a material impact on our consolidated balance sheets, consolidated statements of operations or consolidated statements of cash flows.

RESULTS OF OPERATIONS

In general, this discussion is related to the results of our continuing operations, except for discussions regarding our cash flows (which also include the results of our discontinued operations). Unless otherwise indicated, references in this discussion to 2005, 2004 and 2003 are to our fiscal years ended December 31, 2005, 2004 and 2003, respectively. Additionally, any references to the first, second, third or fourth quarters are to the three months ended March 31, June 30, September 30 and December 31, respectively, for the year being discussed.

Broadcast Revenues

Set forth below are the principal types of broadcast revenues from continuing operations received by our stations for the periods indicated and the percentage contribution of each type to our total gross broadcast revenues (in millions):

	Years Ended December 31,					
	2005		**2004**		**2003**	
Local/regional advertising	$ 413.1	58.5%	$ 406.2	55.5%	$ 403.5	57.2%
National advertising	251.4	35.6%	258.3	35.3%	267.9	38.0%
Political advertising	2.4	0.3%	38.0	5.2%	5.5	0.8%
Network compensation	13.3	1.9%	14.3	1.9%	15.9	2.3%
Retransmission fee revenue (a)	19.2	2.7%	3.5	0.5%	2.6	0.4%
Other station revenues	6.4	1.0%	12.1	1.6%	10.1	1.3%
Gross broadcast revenues	705.8	100.0%	732.4	100.0%	705.5	100.0%
Less: agency commissions	(91.3)		(97.8)		(93.6)	
Net broadcast revenues	614.5		634.6		611.9	
Revenues realized from station barter arrangements	55.0		57.8		58.8	
Other operating divisions revenues	22.6		13.1		14.6	
Total revenues	$ 692.1		$ 705.5		$ 685.3	

(a) 2005 Retransmission fee revenue includes a one-time adjustment of $2.9 million.

Our primary types of programming and their approximate percentages of 2005 net broadcast revenues from continuing operations were syndicated programming (46.4%), network programming (21.4%), news (13.6%), direct advertising programming (8.0%), sports programming (6.0%), children s programming (0.4%) and other programming. Similarly, our five largest categories of advertising and their approximate percentages of 2005 net broadcast revenues were automotive (23.8%), professional services (13.8%), paid programming including religious programming (8.3%), fast food (7.3%) and retail department stores (6.6%). Other than schools, no other advertising category accounted for more than 5.0% of our broadcast revenues in 2005. Along with the industry, we have seen softness in the auto advertising category and we expect this to continue in 2006. No individual advertiser accounted for more than 1.0% of our consolidated net broadcast revenues in 2005.

The following table presents our time sales revenue from continuing operations, net of agency commissions, by network affiliates for the past three years (in millions):

	# of Stations	Percent of Sales 2005	Net Time Sales (a) 2005	2004 (b)	2003	Percent Change 05 vs. 04	04 vs. 03
FOX	19 (c)	40.0%	$ 230.3	$ 237.6	$ 234.3	(3.1)%	1.4%
WB (d)	18 (c)	25.8%	148.2	156.7	157.5	(5.4)%	(0.5)%
ABC	10	22.6%	130.2	141.0	128.1	(7.7)%	10.1%
UPN (d)	6	8.0%	46.2	46.0	42.5	0.4%	8.2%
CBS	2 (c)	1.9%	10.7	13.5	12.4	(20.7)%	8.9%
IND (d) (e)	2	1.1%	6.4	5.7	5.3	12.3%	7.5%
NBC	1	0.6%	3.5	4.2	3.3	(16.7)%	(27.3)%
Total	58 (c)		$ 575.5	$ 604.7	$ 583.4		

(a) During 2005, several of our stations switched affiliates. We have restated the revenue from those stations in prior years for comparability.

(b) 2004 includes significantly more political revenue than 2005 and 2003 for most of our affiliates.

(c) During 2004, we entered into agreements to sell our CBS station in Sacramento, California and our WB station in Kansas City, Missouri. During 2005, we entered into an agreement to sell our FOX station in Tri-Cities, Tennessee. The time sales from these stations are not included in this table because they are accounted for as time sales from discontinued operations.

(d) In the fall of 2006, our composition of network affiliates will change as a result of our recent agreement to air MyNetworkTV programming and the recent announcements about the merger of UPN and The WB into a network to be called The CW. Refer to our *Markets and Stations* table on page 5 and *Note 18. Subsequent Events,* in the Notes to our Consolidated Financial Statements for addition information.

(e) Stations without a network affiliation.

Operating Data

The following table sets forth certain of our operating data from continuing operations for the years ended December 31, 2005, 2004 and 2003 (in millions). For definitions of terms, see the footnotes to the table in *Item 6. Selected Financial Data*.

	Years Ended December 31, 2005	2004	2003
Net broadcast revenues	$ 614.5	$ 634.6	$ 611.9
Revenues realized from station barter arrangements	55.0	57.8	58.8
Other operating divisions revenues	22.6	13.1	14.6
Total revenues	692.1	705.5	685.3
Station production expenses	152.2	154.7	147.6
Station selling, general and administrative expenses	137.6	145.7	130.9
Expenses recognized from station barter arrangements	50.5	53.4	54.1
Depreciation and amortization	138.9	155.8	160.7
Stock-based compensation	1.7	1.6	1.4
Other operating divisions expenses	20.9	14.9	16.4
Corporate general and administrative expenses	20.8	21.2	19.5
Operating income	$ 169.5	$ 158.2	$ 154.7
Net income	$ 187.3	$ 24.0	$ 24.4
Net income available to common shareholders	$ 182.3	$ 13.8	$ 14.0

Revenue Discussion and Analysis

The following table presents our revenues from continuing operations, net of agency commissions, for the three years ended December 31, 2005, 2004 and 2003 (in millions):

	2005	2004	2003	Percent Change 05 vs. 04	Percent Change 04 vs. 03
Local revenues:					
Non-Political	$ 359.5	$ 352.9	$ 350.8	1.9%	0.6%
Political	1.2	9.4	1.9	(87.2)%	394.7%
Total Local	360.7	362.3	352.7	(0.4)%	2.7%
National revenues:					
Non-Political	213.8	219.7	227.6	(2.6)%	(3.5)%
Political	0.8	22.7	3.1	(96.5)%	632.3%
Total National	214.6	242.4	230.7	(11.5)%	5.1%
Other revenues	39.2	29.9	28.5	30.8%	4.9%
Total Broadcasting Revenues	$ 614.5	$ 634.6	$ 611.9	(3.2)%	3.7%

Net Broadcast Revenues. From a revenue category standpoint, the year ended December 31, 2005, when compared to 2004, was negatively impacted by a decrease of advertising revenues generated from the political, automotive, movies, telecommunications and food-breakfast sectors, offset by increases in the services, schools and entertainment sectors. Automotive, our single largest category, representing 23.8% of the year s net time sales, was down 5.1%.

Political Revenues. Both local and national political revenues were the primary drivers of higher revenue in 2004, compared to 2005 because 2004 was a presidential election year. In fact, we own television stations in 11 of the 16 so called Battleground States including multiple stations in Ohio, Florida and West Virginia. We expect political revenues to increase in 2006 from 2005 levels, but not to the extent of political revenues from 2004 since 2006 is not a presidential election year.

Local Revenues. Our revenues from local advertisers, excluding political revenues, increased during the year ended December 31, 2005 when compared to 2004. We continue to focus on increasing local advertising revenues through innovative sales and marketing strategies in our markets. Revenues from our new business initiatives increased by $11.0 million during the year ended December 31, 2005 to $26.4 million from $15.4 million during 2004. We expect to continue our focus on new business revenues in 2006. Additionally, during 2004, we implemented an enhanced sales training course for all of our salespeople with a focus on local revenue sales. We have continued these efforts throughout 2005 and will continue these efforts in 2006.

National Revenues. Our revenues from national advertisers, excluding political revenues, have continued to trend downward over time. We believe this trend represents a shift in the way national advertising dollars are being spent and we believe it has recently begun accelerating. Advertisers in major categories like automotive, soft drink and packaged goods are shifting significant portions of their advertising budgets away from spot television into non-traditional media, in-store promotions and product placement in network shows. We expect this trend to continue into 2006.

Other Revenues and Expenses. Our other revenues consist primarily of network compensation, revenues from retransmission agreements with cable and satellite providers, production revenues and revenues from our outsourcing agreements. Compared to 2004, other revenues increased \$9.3 million during the year ended December 31, 2005. The increase in other revenues is primarily related to increased retransmission revenues which increased \$8.7 million in 2005, excluding a one-time adjustment of \$2.9 million. We expect to experience similar growth in our retransmission revenues in 2006. We expect this growth to be partially offset by a reduction in our network compensation, although we cannot predict the extent of this reduction in light of the recent CW network merger announcement.

Expense Discussion and Analysis

The following table presents our significant expense categories for the three years ended December 31, 2005, 2004 and 2003 (in millions):

	2005	2004	2003	Percent Change 05 vs. 04	Percent Change 04 vs. 03
Station production expenses	$ 152.2	$ 154.7	$ 147.6	(1.6)%	4.8%
Station selling, general and administrative expenses					