

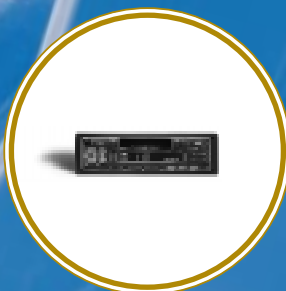


SINCLAIR BROADCAST GROUP

OUR FOCUS BROUGHT US

ANOTHER YEAR OF RECORD-SETTING

GROWTH AND ACQUISITIONS



Annual Report **1997**

F R O M V I S I O N A R Y B E G I N N I N G S . . .

IN 1971 WHEN JULIAN SINCLAIR SMITH WENT ON THE AIR IN BALTIMORE WITH WBFF, OUR FLAGSHIP STATION, UHF (ULTRA HIGH FREQUENCY) BROADCASTING WAS LITTLE MORE THAN A DREAM. TODAY, UHF BROADCASTERS ARE AN IMPORTANT PRESENCE IN VIRTUALLY EVERY MARKET IN THE COUNTRY, AND THE SINCLAIR BROADCAST GROUP IS AN ACKNOWLEDGED LEADER IN THE INDUSTRY. RELYING ON THIS PIONEERING SPIRIT, THE COMPANY HAS GROWN RAPIDLY SINCE 1971. DAVID SMITH HAS KEPT FAITH WITH HIS FATHER, A VISIONARY THINKER WHO HAD THE CONFIDENCE TO TURN HIS VISION INTO REALITY. AS WE ENVISION A NEW FUTURE FOR BROADCASTING, WE ARE EXCITED BY THE POSSIBILITIES BEFORE US AND PREPARED FOR THE CHALLENGES.

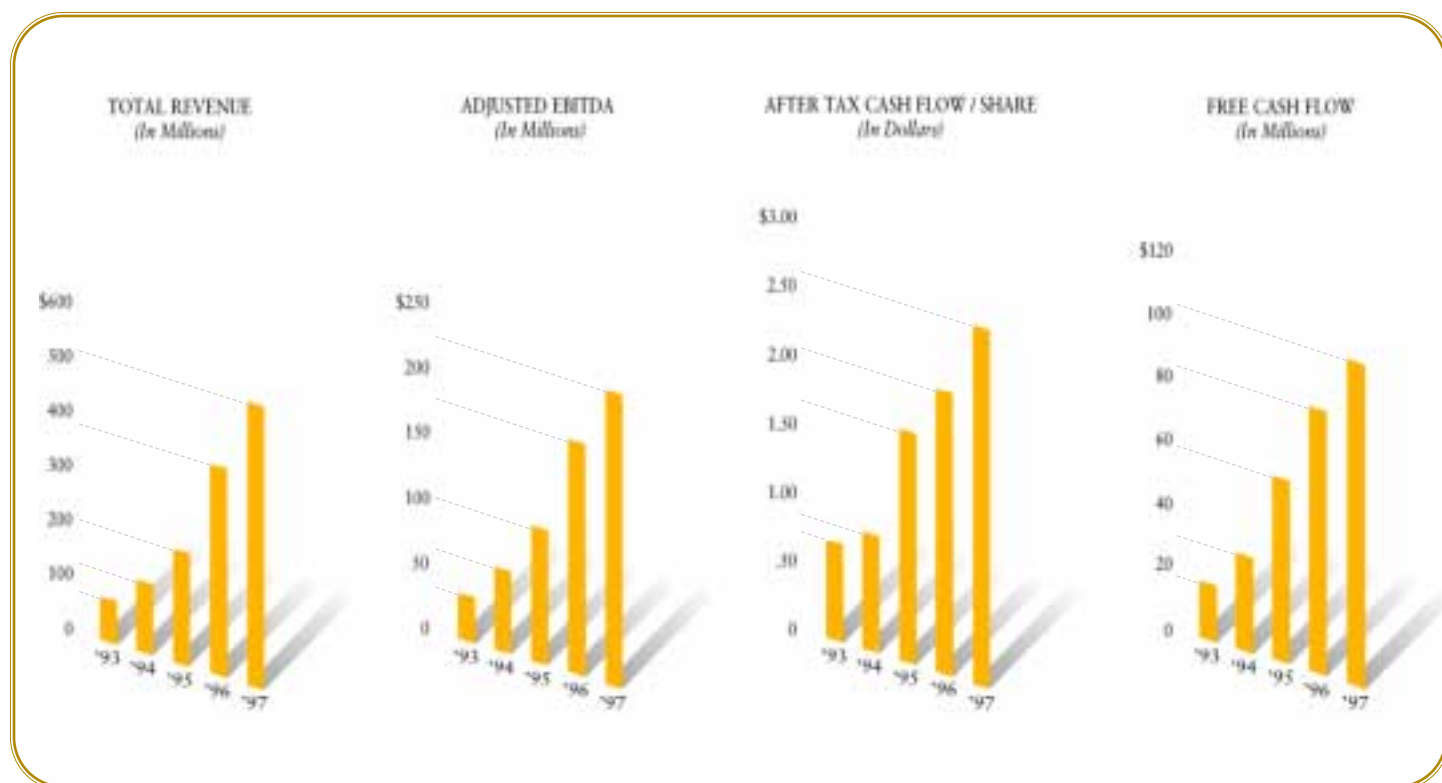


Julian Sinclair Smith
Founder

FINANCIAL HIGHLIGHTS

(In Thousands, Except Per Share Data)

	1993	1994	1995	1996	1997
Total Revenue.....	76,424	129,354	206,134	378,488	516,435
Adjusted EBITDA.....	35,406	64,547	105,750	180,272	229,000
Basic Net Income (Loss) Per Common Share Before Extraordinary Items	\$ 0.00	\$ (0.09)	\$ 0.15	\$ 0.03	\$ (0.20)
Total Assets	242,917	399,328	605,272	1,707,297	2,034,234
Total Debt	224,646	346,270	418,171	1,288,103	1,080,722
After Tax Cash Flow Per Share	\$ 0.72	\$ 0.86	\$ 1.70	\$ 2.07	\$ 2.62
Adjusted EBITDA Margin	50.9%	54.4%	56.3%	52.0%	48.6%



Through record-setting growth in revenue and broadcast cash flow, strategic acquisitions and a key affiliation agreement, Sinclair Broadcast Group, Inc. (SBG) established itself in 1997 as a leader in the television broadcast industry. We are now one of the largest broadcasting companies in the United States and moving confidently towards our goal of becoming the nation's largest independent broadcaster. Our progress over the past year reflects our intention to chart our own destiny in an industry with excellent growth potential and technological promise. As it has in previous years, our success in 1997 results from a strong management team building on a sound financial foundation. The Company enters 1998 positioned to shape the development of our industry and capitalize on the exciting opportunities unfolding ahead.

Posting Excellent Financial Performance

We were pleased with the performance of SBG's television and radio stations in 1997. The Television Division grew faster than the industry on a pro forma basis according to the Television Bureau of Advertising. SBG's television revenues on a pro forma basis rose 4.4% in a "hammock" year between political and Olympic years. The Radio Division outpaced its markets, growing 11.4% in revenues on a pro forma basis. Consolidated broadcast cash flow for the year grew 10.1% on a pro forma basis and 12.8% on a reported basis. After-tax cash flow per share, a key measure of our cash earnings, grew 26.6% to \$2.62 per share. The price per share of SBG stock rose 79% in 1997, reflecting the confidence of the investor community in the Company's management and its strategies. In the eyes of analysts, SBG is becoming a bellwether stock for the broadcast industry.



Barry Baker
CEO-Designate
Sinclair Communications, Inc.



David B. Amy
Chief Financial Officer



David D. Smith
Chairman, President and Chief
Executive Officer

“The price per share of SBG stock rose 79% in 1997, reflecting the confidence of the investor community in the Company's management and its strategies. In the eyes of analysts, SBG is becoming a bellwether stock for the broadcast industry.”

Making Strategic Acquisitions

In 1996, SBG became the nation's largest commercial television broadcasting company that neither owns nor is owned by a network. In 1997 and early 1998, we made strategic acquisitions to consolidate our presence in major and medium-sized markets, further diversify the Company's portfolio of broadcast properties and network affiliations and position SBG among the country's top ten radio groups. The 1997-98 acquisitions, net of subsequent dispositions, will give the Company ownership of, or the right to program and/or sell advertising on, 56 television stations and 51 radio stations in 37 and 11 separate markets, respectively. Our diversified television network affiliations now include FOX, The WB Network (WB), ABC, NBC, United Paramount Network (UPN) and CBS. Our successful radio stations have a wide variety of formats ranging from News/Talk to Country to Modern Rock, and we enjoy excellent competitive positions in our markets.

In three separate 1997 transactions, SBG agreed to acquire 24 radio and six owned or programmed television stations from Heritage Media Group, nine owned or programmed television stations and eight radio stations from Max Media and station KLGT-TV in Minneapolis, the nation's 14th largest market, from the Lakeland Group. In addition to increasing the Company's asset flexibility, these transactions allow us to consolidate three key Sinclair radio markets, St. Louis, Norfolk and New Orleans, and provide new radio-television cross-ownership opportunities in Norfolk, Milwaukee, Kansas City and St. Louis. They will also add television time brokerage agreements in Mobile, Syracuse, Paducah-Cape Girardeau and

Tyler-Nacogdoches. By enabling SBG to enhance the programming and sales functions of those stations, the time brokerage agreements should generate increasing revenues in those markets.

In February, 1998, SBG agreed to acquire 13 owned or programmed television stations from Sullivan Broadcast Holdings, Inc. This key strategic transaction dramatically increases the number of SBG's FOX affiliates and will enable us to pair television stations in Buffalo, New York, and Greensboro/Winston-Salem/Highpoint, North Carolina, with radio stations we already own in those markets.

Most importantly, by expanding our distribution system, all of these acquisitions strengthen our ability to program our stations more cost-effectively. The fact that SBG will be able to offer television syndicators 22.5% of the national television households—a figure that exceeds the combined households of New York, Los Angeles, Chicago, Philadelphia and San Francisco—should enhance SBG's ability to provide

high quality new programming, which in turn, should improve market share, leading to rising advertising revenues.

Changing the Landscape of the Industry

SBG's landmark affiliation agreement with The WB, calling for \$84 million in cash payments to SBG over the length of the 10 year contract, is further evidence of the industry leverage provided by our powerful distribution system. The agreement covers eight new stations, five of which were previously UPN affiliates, and marks the first time that either The WB or UPN has offered network compensation of any magnitude to its affiliates. On

"The 1997-98 acquisitions, net of subsequent dispositions, will give the Company ownership of, or the right to program and/or sell advertising on, 56 television stations and 51 radio stations in 37 and 11 separate markets, respectively."

January 16, 1998, former UPN affiliates WPTT-TV, Pittsburgh (relaunched as WCWB-TV), WNUV-TV, Baltimore,WSTR-TV, Cincinnati, KRRT-TV, San Antonio, and KOCB-TV, Oklahoma City, all became primary affiliates of The WB Television Network. KUPN-TV, Las Vegas, and WTTV-TV, Indianapolis, will switch to The WB in 1998. In addition, on November 1, 1999, WFBC-TV, Greenville, will join The WB. SBG's agreement with The WB reflects our goal of aligning the Company with successful, fully integrated and branded networks and positions us to benefit from the long-term viability of The WB.

Building a Diversified Portfolio

In 1997, SBG emerged as one of the leading consolidators in the broadcasting industry. We consistently demonstrated our ability to combine synergies of revenue and expense, economies of scale and programming leverage to effectively integrate our acquisitions and rapidly improve margins.

The addition of our 1997-98 acquisitions gives SBG a uniquely diversified portfolio of properties. No market represents more than 8.2% of the Company's broadcast cash flow. No network

1997 Pro Forma Net Revenue by Affiliation



Includes stations owned and affiliations in effect on December 31, 1997, and therefore is not pro forma for WB agreement.

represents more than 46%, and perhaps most significant given the strong growth now underway in the radio sector, radio properties represent approximately 14% of SBG's broadcast cash flow. SBG now has or will have cross-ownership of TV and radio stations in seven of its 37 television markets: St. Louis, Milwaukee, Kansas City, Norfolk, Greenville/Asheville, Buffalo and Greensboro/Winston-Salem/Highpoint. The ability to cross-promote programming and cross-market advertisers greatly enhances our competitive position in those markets.

Bringing New Resources to Communities through LMAs

SBG is firmly committed to the LMA (local marketing agreement) concept as a way of building value for the Company and serving the communities where we have LMAs. LMAs enable us to program a second station within the guidelines of the Federal Communications Commission (FCC) in markets where we already own a station. LMAs, as implemented by SBG, promote both minority ownership of television stations and greater diversity of programming and result in an enhanced competitive position for the LMA station. Our LMAs bring high quality programming from networks like The WB or UPN into new markets and introduce the possibility of additional news programming on the owned and LMA stations. In 1997, in keeping with our policy of adding news operations where they can be profitable, we began news shows at SBG-owned stations in Pittsburgh and Columbus and successfully expanded news operations to our LMA station in Baltimore, WNUV-TV. We are planning to add local news on KRRT-TV, our LMA station in San Antonio, later this year. Over the longer-term, SBG will continue to promote the value of LMAs with Congress and the Federal Communications Commission to insure that the communities in which we operate continue to benefit from the resources LMAs provide.

Creating a Sound Financial Base

To support our growth strategy, in May 1997, SBG refinanced its \$1 billion credit facility, in the process securing more flexible terms and reductions in the rate of interest of up to 1% per annum which will generate approximately \$7 million in annual savings. In September 1997, we completed the sale of over \$300 million in common and preferred stock, and in July and December 1997, we raised \$450 million through the placement of new subordinated debt. Taken together, these activities, in addition to the growth in our Adjusted EBITDA, generated significant acquisition capacity that we have already earmarked for the Sullivan, Lakeland and Max Media transactions.

Pioneering New Technology

Sparked by a dynamic regulatory environment, the broadcasting industry continued to face new challenges in 1997. The FCC accelerated the shift of the television industry from analog to digital broadcasting (DTV) by granting the first digital licenses to broadcasters. To ensure our ability to take full advantage of the opportunities in DTV, SBG led the way in creating a strong voice for UHF broadcasters within the industry in regard to new DTV channel assignments and power allocations.

As we focus on maximizing our stations' capacity to transmit programming and information digitally to viewers, we are also pioneering business models for this new technology. In addition to providing a platform for applications including Internet "push" technology, digital home shopping, music CD and movies, DTV makes it possible for broadcast television to become a viable competitor to both cable and satellite television. To confirm this potential, during 1998 SBG will present an on-air demonstration of its capacity to broadcast multichannel television, linking the bandwidths of WBFF-TV and WNUV-TV, both in Baltimore, to create multiple channel options.

Shaping the Future

While aggressively pursuing appropriate opportunities for DTV over the long term, SBG will continue to be a leader in the ongoing consolidation of the broadcast industry. We are working with programmers to capitalize further on our strong distribution system, expanding news operations to our LMA stations where appropriate and continuing to invest in our sales staff to insure that our stations grow faster than our markets. Our focus on building a deep and talented management team not only gives us a competitive edge versus the rest of the industry, it gives us the confidence to know that we can attain our key objectives even as we venture into new digital businesses. SBG's top managers have significant stakes in this enterprise and are experienced broadcasters who know how to build the value of television stations. We appreciate your trust and support as we work to shape the future of our industry.

Sincerely,



David D. Smith
Chairman, President and Chief Executive Officer



David B. Amy
Chief Financial Officer



Barry Baker
CEO-Designate of Sinclair Communications, Inc.

S B G Television



Positioning SBG to Profit from the Growth of Emerging Networks

As an independent television broadcaster, SBG benefits as audience share, particularly in the young adult demographic, continues to shift from the major networks to FOX, WB and UPN. Our recent affiliation agreements with Fox and The WB extend our grasp on this profitable market. The WB agreement, in particular, recognizes the strength of our distribution system: as compensation for switching affiliations, The WB agreed to pay SBG \$84 million over ten years, virtually all of which falls to our bottom line. The switch of five stations to The WB in January, 1998, positioned SBG to capitalize on the improved long-term viability of this exciting network, whose prime-time ratings improved last season by 8% and should jump again in 1998, thanks to new programming and the strong distribution offered by our stations. Our WB and Fox Kids affiliations enhance our strong commitment to children's programming by providing up to 19 hours each week of high quality animated programs for our youngest viewers.

Building a Programming Inventory to Capture a Key Demographic

SBG generates a significant portion of its revenues from the prime time access hours, 5–8 p.m., when we own nearly all of the commercial inventory, broadcasting local news and counter programming competing stations by offering such shows as “The Simpsons,” “Home

Improvement,” “Seinfeld” and “Frasier.”

These popular off-network syndicated programs consistently deliver the demographic most valuable to advertisers—young adults in the 18–34 and 18–49 year old ranges. During 1997, we were able to add “Friends,” “The Drew Carey Show” and “3rd Rock From the Sun” to our programming inventory for seasons starting in 1998 and beyond at highly competitive rates which should translate into audience ratings strength and increased cash flow.

Expanding Viewership through Local Newscasts

Local newscasts are also powerful tools in delivering this key demographic. In March, 1997 we launched a 6:30 p.m. newscast on our LMA station in Baltimore, WNUV-TV. In the November, 1997 ratings book, this newscast, produced by our owned station, WBFF-TV, exceeded our expectations in the Nielson Media Research ratings with young women, young adults and young men, beating, in those categories, the newscasts of both the local NBC and ABC affiliates. In keeping with these results and Company strategy of offering local news programming at stations where it can be profitable, SBG plans to begin production of local news in 1998 at our LMA station in San Antonio, KRRT-TV. The Company provides local news programming in 14 markets.

Widening our Profit Margins

Having built both an excellent distribution system and a talented management team, SBG is well-positioned to continue expanding its profit margins. We have historically focused on lowering operating costs, and through the addition of our 1996–1998 acquisitions, we achieved the ability to manage the cost of programming even more effectively. Since programming is the largest single expense for independent stations as well as for affiliates of FOX, WB and UPN, SBG's ability to command highly competitive prices for syndicated, off-network shows is a major advantage.

Other factors contributing to our strong margins are vendor agreements with TeleRep/HRP, the premier television national sales representation organization in the country, and Nielsen Media



Research, a national ratings service. These should save SBG more than \$25 million over the five years since their 1996 signing, while ensuring a dedicated team for national sales efforts, reduced national sales commission rates and lower rating service expenses. As part of its agreement, Nielsen also agreed to meter more SBG markets over time in an ongoing effort to provide a truer assessment of viewership than manual diaries. This should

benefit the Company's audience share in most of those markets, possibly leading to higher advertising revenues as younger demographic samples are more accurately read in metered environments.

Finally, by centralizing purchasing for all our stations, we expect to generate continued opportunities to save on expenses.



Through its 1996 and 1997-98 acquisitions, SBG created an unrivaled distribution system in markets below the top 15. In little more than a year, SBG expanded from 29 stations to 56 (including pending transactions)—30 of them in the nation's top 51 markets. The Company now reaches 22.5% of the United States—a figure that exceeds the combined markets of New York, Los Angeles, Chicago, Philadelphia and San Francisco. Our diversified affiliations include 23 FOX stations, 11 WB, six UPN, three NBC, five ABC, one CBS and seven independent.



REGIONAL DIRECTORS

(from left to right)
Steven M. Marks, Frank Quitoni,
Michael Granados, Stuart Powell,
John T. Quigley, Robert Gluck



Outperforming our Markets

1997 was a remarkable year for SBG's radio division: the group outperformed the growth in its markets in every month. For the year as a whole, revenue growth in our markets went up 10% while our stations' growth exceeded 12%. SBG currently captures at least 20–25% of radio advertising revenues in all our markets (other than Los Angeles) and reaches one-third in most of them. Coupled with our pending acquisitions of 16 radio stations, this performance places the Company among the nation's top ten largest radio groups in terms of revenues.

SBG will continue to consolidate radio station groups primarily in markets 15–75, which we believe present the best opportunities for leadership and growth. Our strategy is to operate a cluster of stations in selected geographic areas, focusing particularly on communities where SBG owns television stations. This approach maximizes our audience in a market and creates an aura of success that helps us attract top quality personnel. Programming formats include Country, Urban, News/Talk/Sports, Contemporary Hits, Rock, Oldies and Adult Contemporary. We are convinced that the division's 1997 results derive largely from



two strategies: our emphasis on “branding” stations with a distinct local identity and our focus on building a strong sales management team.

Expanding our “Branding” Strategy through Cross-Ownership

Radio is a local business. While we strive to develop strong local air personalities, particularly on our talk stations, we also strengthen the total image of each station through programming and promotional events that transcend the identity of any single personality. By increasing from two to five the number of markets where the Company owns both television and radio stations, our 1997 pending acquisitions provide valuable opportunities to expand our branding strategy through cross-promotion of programming and cross-marketing of advertisers. Our acquisition strategy for radio will focus on markets where we can take full advantage of cross-ownership.

Providing Resources for Advertisers

To ensure that we capitalize fully on these opportunities, the Company has invested heavily in its sales management team. As a result, SBG stations are now supported by an expanded corporate sales effort that can provide advertisers with a wide array of resources including customized sales research. We have been able to capture a significant share of an advertiser's budget by packaging a combination of media, programs and stations that deliver all the desired demographics.

Investing in a Growing Medium

SBG's radio performance is particularly encouraging given the growing popularity of radio with advertisers. Historically, radio has captured 7% of all advertising dollars in the country while one-third went to newspapers. As radio audiences grow, the balance is shifting. Within five years, some industry watchers expect radio to command 10% of all revenues by challenging the reach of newspapers as radio consolidates and newspaper readership erodes.



SBG stations, including pending acquisitions, are among the top 3 audience and market share leaders in the following markets: **Buffalo, Wilkes-Barre, New Orleans, St. Louis, Kansas City, Norfolk, Greensboro, Greenville/Spartanburg, and Memphis.**



SCI RADIO MANAGEMENT

(from left to right)
Frank Bell, VP/Programming, Carla Phillips, Controller, Lynn Deppen, VP/Engineering, Robin Smith, CFO, Barry Drake, COO, Jeff Sleete, VP/Sales & Marketing, Kerby Confer, CEO-Designate

Taking the Lead

SBG is taking the lead in determining how the television industry will use the new spectrum space generated by its conversion from analog to digital technology. To comply with Federal Communications Commission (FCC) regulations, we are preparing to broadcast digital signals at four of our stations by the end of 1999. At the same time, we are developing business models to apply this new technology in value enhancing ways. SBG sees in digital television the clear opportunity for the broadcasting industry to compete directly with cable and satellite television and to provide a multidimensional platform for the transmission of high speed data.

Pioneering a Value Enhancing Approach

Although digital technology does make high-definition television (HDTV) possible, we believe that HDTV would produce little in the way of new revenue for television stations while introducing prohibitive costs both to the industry and to the individual consumer. SBG is focusing its efforts on the potential of multicasting, which by splitting the new bandwidth into several channels, provides a platform for applications including delivery of Internet "push" technology, digital home shopping, music CDs and movies. Our vision of digital television not only requires a smaller investment than converting to HDTV, but may actually produce a return on that investment more quickly.



From the consumer's perspective, we expect the multicasting picture will resemble HDTV, but will offer far more: a wide-screen format, enhanced picture, CD quality sound, and the opportunity to receive multiple channels from one station. Since they do not require the infrastructure of a wired network or satellite delivery, these services may cost the public less than either cable or DBS. In addition, we expect home computers will be able to download information continuously at speeds up to 30 times faster than available today, without having to dial in to the Internet via modem.

Building Consensus

In the near future SBG will present an on-air demonstration of its capacity to broadcast multichannel television, linking the bandwidths of WBFF-TV and WNUV-TV, both in Baltimore, to create multiple channel options. Once we have demonstrated the viability of our vision of digital television, we will continue to build consensus for multicasting within the industry and in Washington. Ultimately, SBG may form a consortium with other broadcasters in a market to deliver a cable-competitive product.



DTV, or digital television, offers consumers
an exciting new broadcast medium while giving
broadcasters new growth opportunities.



Nat Ostroff
VP / New Technology

Television and



Dharma and Greg



Moesha

Drew Carey



Reggie Miller
Indiana Pacers



The X-Files



NFL on Fox



Dawson's Creek



Jerry Springer



Ally McBeal



Michigan J. Frog
WB Network



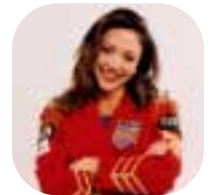
Frasier



Touched by an Angel



Commander KC
*WTTV-TV
Indianapolis, IN*



SBG generates a significant portion of its revenues from the prime time access hours, 5-8 p.m., when we broadcast local news and counter program competing stations by offering popular off-network syndicated programs.

Local News Talent and

Leslie Lyles
*KDNL-TV
St. Louis, MO*



Stan Atkinson
*KOVR-TV
Sacramento, CA*



Jody Manley
*KABB-TV
San Antonio, TX*



Don Marsh
*KDNL-TV
St. Louis, MO*



Jim Marsh
*KABB-TV
San Antonio, TX*



Keith Taylor
*WLOS-TV
Asheville, NC*



Jennifer Whitney
*KOVR-TV
Sacramento, CA*



First News at Ten
*WLFL-TV
Raleigh, NC*



Tammy Watford
*WLOS-TV
Asheville, NC*



Lorene Wagner
*WTTE-TV
Columbus, OH*



The inclusion in this annual report of photographs of certain celebrities is intended merely to convey the scope of the programming broadcast on television stations owned and/or programmed by Sinclair and does not constitute an endorsement by any of these celebrities of Sinclair or its stock. Neither does the inclusion indicate that any of these celebrities have any other involvement with, or interest in, Sinclair.

Radio Personalities

Jim Rising & Dawn Early
WGGY/Wilkes Barre, PA



Nicholas Picholas
WKSE/Bufalo, NY



Kay Manley
WVRV/Memphis, TN



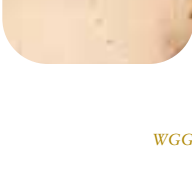
Splash Gordon
WOGY/Memphis, TN



Greg Peters
WVRV/Memphis, TN



Rocky Rhodes
WGGY/Wilkes Barre, PA



Chuck Jeffries
WVRV/St. Louis, MO



Traci Wilde
KPNT/St. Louis, MO

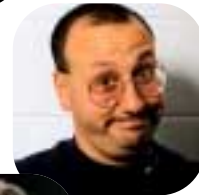


Buddy D
WWL/New Orleans, LA

The Coach
WGR/Bufalo, NY



Wease
WKSE/Bufalo, NY



Tom Bauerle
WGR/Bufalo, NY



People give SBG its competitive edge. From radio personalities to top managers, SBG has the talent to grow successfully in new markets and new businesses.

Selected Broadcast Management

Bob Finke
VP/GM, KOVR



M. William Butler
VP/Group Program Director, SCI



Michael E. Sileck
VP/Finance, SCI



Gayle S. Levinson
Regional Business Manager



Michael Draman
VP/TV Sales and Marketing, SCI



Delbert R. Parks III
VP / Operations and Engineering, SCI



Missy Gaines
Director of Operations WSTR



Thomas E. Severson
Corporate Controller



Will M. Davis
VP/GM, WLOS/WFBC



Robert E. Quicksilver
VP/General Counsel, SCI

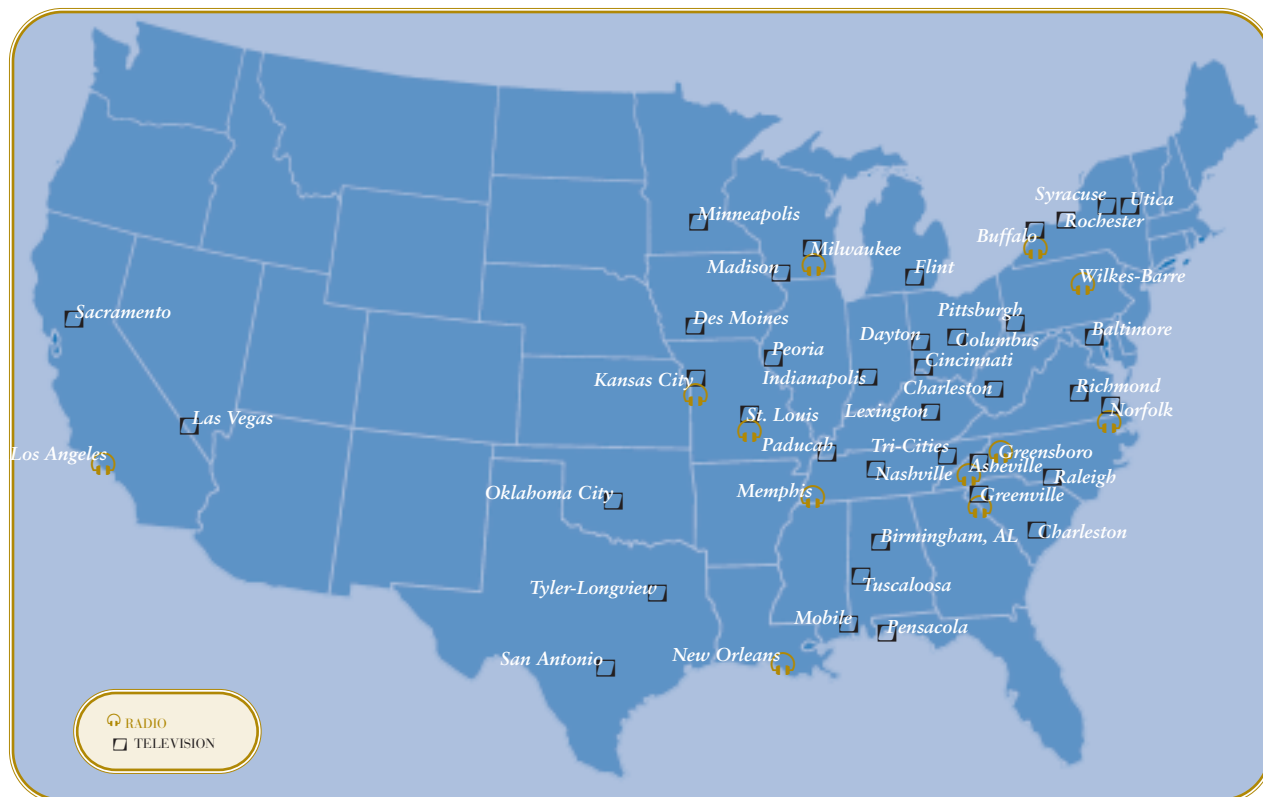


Patrick J. Talamantes
Director of Corporate Finance



John C. Long
VP/GM, WTTV





LOCATION	RADIO STATIONS	MARKET RANK
Los Angeles, CA	KBLA	1
St. Louis, MO	KPNT, WVRV, WRTH, WIL, KIHT	18
Kansas City, MO	KCFX, KQRC, KCIY, KXTR	29
Milwaukee, WI	WEMP, WMYX, WAMG	32
New Orleans, LA	WLMG, WWL, WSMB, WEZB, WLTS, WTKL	38
Memphis, TN	WRVR, WJCE, WOGY	40
Norfolk, VA*	WGH, WGH, WVCL, WFOG, WPTE, WWDE, WNVZ	41
Buffalo, NY	WMJQ, WKSE, WBEN, WWKB, WGR, WWWS	42
Greensboro/Winston-Salem/High Point, NC	WMQX, WQMG, WJMH, WQMG	52
Asheville, NC & Greenville/Spartanburg, SC	WFBC, WORD, WYRD, WSPA, WSPA, WOLI, WOLT	60
Wilkes-Barre/Scranton, PA	WGGI, WILT, WKRZ, WGGY, WILK, WGBI, WWSH, WILP, WWFH, WKRF	68

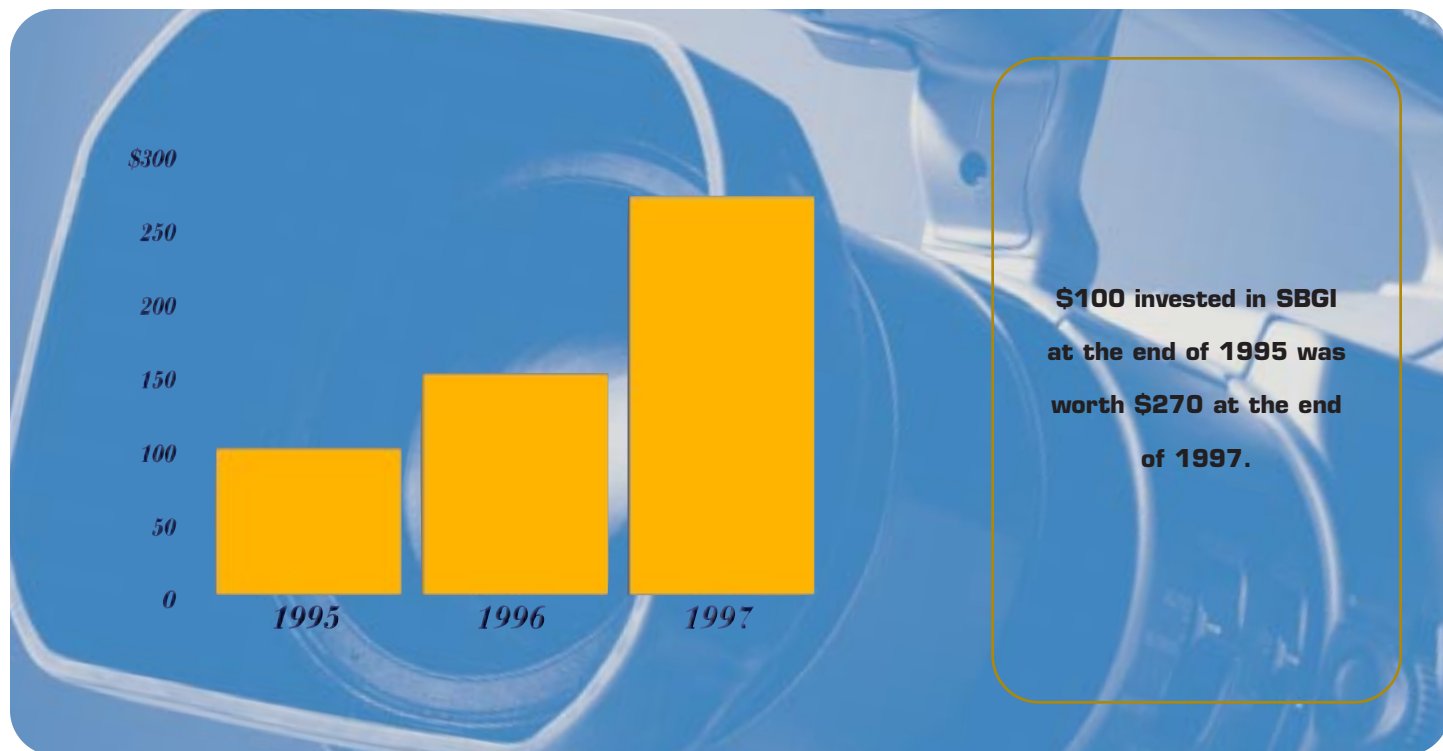
LOCATION	TV STATIONS	MARKET RANK
Minneapolis, MN	KLGT (WB)	14
Pittsburgh, PA	WPGH (FOX), WCWB (WB)	19
Sacramento, CA	KOVR (CBS)	20
St. Louis, MO	KDNL (ABC)	21
Baltimore, MD	WBFF (FOX), WNUV (WB)	23
Indianapolis, IN	WTTV (IND), WTTK (IND)	25
Raleigh-Durham, NC	WLFL (FOX), WRDC (UPN)	29
Cincinnati, OH	WSTR (WB)	30
Milwaukee, WI	WCGV (IND), WVTM (WB)	31
Kansas City, MO	KSMO (IND)	32
Nashville, TN	WZTV (FOX), WUXP (UPN)	33
Columbus, OH	WTTE (FOX)	34
Asheville, NC & Greenville/Spartanburg/Anderson, SC	WFBC (IND), WLOS (ABC)	35
San Antonio, TX	KABB (FOX), KRRT (WB)	38
Norfolk, VA	WTVZ (FOX)	39
Buffalo, NY	WUTV (FOX)	40
Oklahoma City, OK	KOCB (WB), KOKH (FOX)	44
Greensboro/Winston-Salem/Highpoint, NC	WXLV (ABC), WUPN (UPN)	46
Birmingham, AL	WTTO (WB), WABM (IND)	51
Dayton, OH	WKEF (NBC), WRGT (FOX)	53
Charleston/Huntington, WV	WCHS (ABC), WVAH (FOX)	57
Richmond, VA	WRLH (FOX)	59
Las Vegas, NV	KUPN (WB), KFBI (IND)	61
Mobile, AL/Pensacola, FL	WEAR (ABC), WFGX (WB)	62
Flint/Saginaw/Bay City, MI	WSMH (FOX)	63
Lexington, KY	WDKY (FOX)	67
Des Moines, IA	KDSM (FOX)	69
Syracuse, NY	WYSY (FOX), WNYN (UPN)	72
Rochester, NY	WUHF (FOX)	75
Paducah, KY/Cape Girardeau, MO	KBSI (FOX), WDKA (UPN)	79
Madison, WI	WMSN (FOX)	84
Tri-Cities, TN	WEMT (FOX)	93
Tyler-Longview, TX	KETK (NBC), KLSB (NBC)	107
Peoria/Bloomington, IL	WYZZ (FOX)	110
Charleston, SC	WMMP (UPN), WTAT (FOX)	117
Utica, NY	WFXV (FOX), WPNY (UPN)	169
Tuscaloosa, AL	WDBB (WB)	187

Map shows SBG stations pro forma for all acquisitions and divestitures.

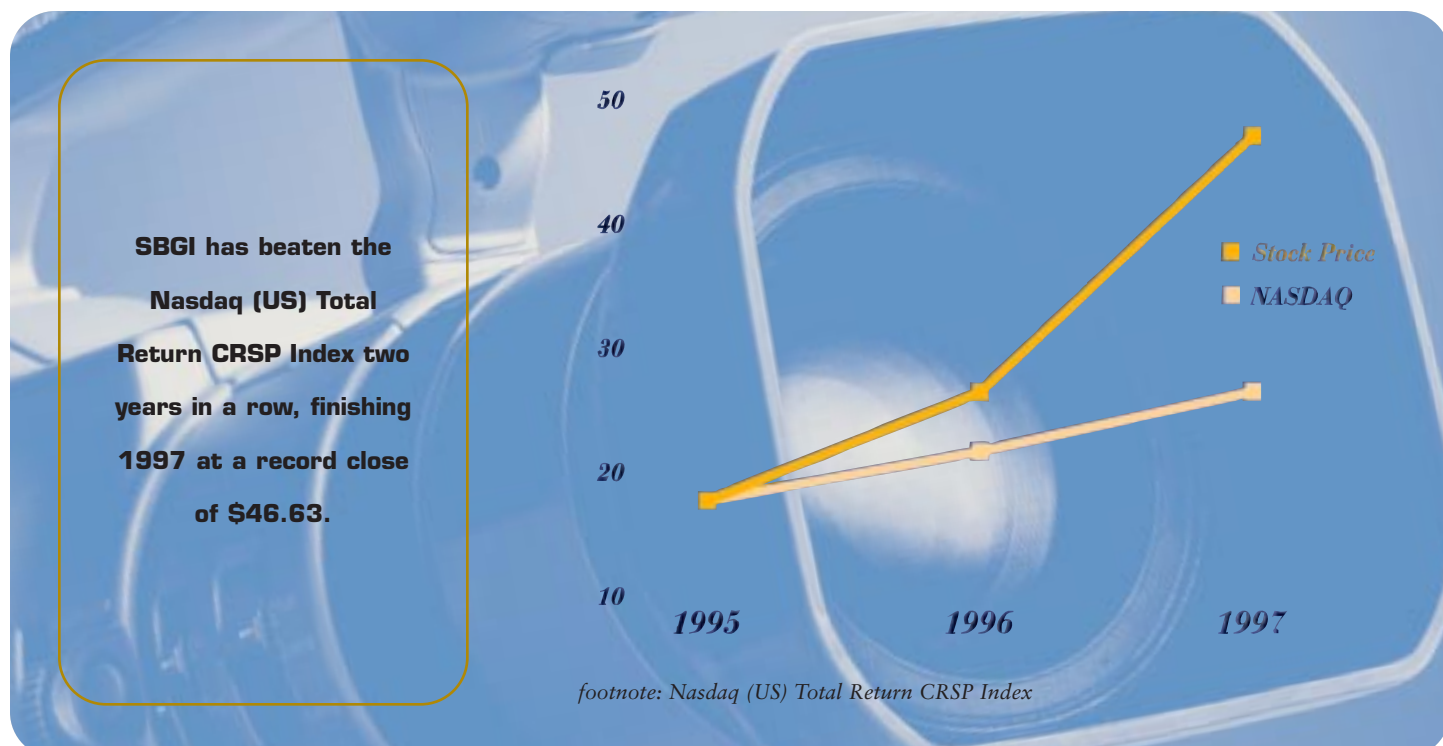
*SBG must divest of two stations in this market to comply with FCC ownership guidelines.

Investment Highlights

Three Year Cumulative Return



Performance Graph





1 9 9 7 A W A R D S

NEWS AWARDS

KABB—ALEX GARCIA, TEXAS ASSOCIATED PRESS, BEST WEATHERCAST, 2ND PLACE

KABB—JODY MANLEY, TEXAS ASSOCIATED PRESS, BEST FEATURE REPORT, 2ND PLACE

KDNL—MARC HADLER, PHOTOGRAPHER OF THE YEAR, MIDWEST REGION, NATIONAL PRESS PHOTOGRAPHERS

KDNL—MARC HADLER, ST. LOUIS REGION EMMY AWARDS FOR PHOTOGRAPHY AND EDITING

KOVR—BRUCE ANDERSON, KOVR 13 REPORTER/SAFETY CONSULTANT—FINALIST, THE NATIONAL ACADEMY OF TELEVISION ARTS & SCIENCES, NATIONAL AWARD FOR COMMUNITY SERVICE

**WDKY—1997 AP AWARDS/REGIONAL—HONORABLE MENTION FOR EXCELLENCE IN A PLANNED SERIES OR DOCUMENTARY—
“BRING COUNTRY HOME”**

WDKY—1997 AP AWARDS/REGIONAL—HONORABLE MENTION FOR EXCELLENCE—BEST REPORTER—MARVIN BARTLETT

WPGH—CHRIS REECE, FEATURE PHOTOGRAPHY, MID ATLANTIC REGION, NATIONAL PRESS PHOTOGRAPHERS

COMMUNITY SERVICE AWARDS

KABB—OUTSTANDING SERVICE AWARD, MOTHERS AGAINST DRUNK DRIVING

KDNL—LIFETIME ACHIEVEMENT AWARD, PARTNERSHIP FOR A DRUG-FREE MISSOURI

KOCB—THE CHEF’S FEAST AWARD, THE OKLAHOMA CITY FOOD BANK

WABM—THE BIRMINGHAM BLUES IN THE SCHOOLS AWARD, COMMUNITY EDUCATION DEPARTMENT OF BIRMINGHAM PUBLIC SCHOOLS

**WBFF—1997 CAPITAL REGION EMMY FOR OUTSTANDING CHILDREN’S SPECIAL...“HOW I SPENT MY SUMMER VACATION:
EVERYDAY KIDS CAN DO EXTRAORDINARY THINGS”**

WCGV—PARTNERSHIP FOR A DRUG-FREE AMERICA FOR REDUCING USE OF ILLEGAL DRUGS

WDKY—OUTSTANDING CONTRIBUTION TO ARTS IN LEXINGTON, ACTORS GUILD OF LEXINGTON AND LEXINGTON ART LEAGUE

WLOS—PEDIATRIC BRAIN TUMOR FOUNDATION OF THE UNITED STATES AWARD, “RIDE FOR KIDS”

WSMH—1997 VOLUNTEER AWARD, UNITED WAY

WSTR—PARTNERSHIP FOR A DRUG-FREE AMERICA FOR REDUCING USE OF ILLEGAL DRUGS

WTTE—HUMANITARIAN OF THE YEAR AWARD, INGRAM-WHITE CASTLE FOUNDATION

WTTO—OUTSTANDING MEDIA AWARD, ALABAMA VOLUNTEER COUNCIL

WTTV—1997 SALVATION ARMY MEDIA PARTNER OF THE YEAR

WYZZ—CERTIFICATE OF APPRECIATION FROM THE ARTHRITIS FOUNDATION, “JINGLE BELL RUN FOR ARTHRITIS”

Selected Financial Data

The selected consolidated financial data for the years ended December 31, 1993, 1994, 1995, 1996 and 1997 have been derived from the Company's audited Consolidated Financial Statements. The Consolidated Financial Statements for the years ended December 31, 1995, 1996 and 1997 are included elsewhere in this Annual 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 Annual Report.

STATEMENT OF OPERATIONS DATA

(dollars in thousands, except per share data)

	Years Ended December 31,				
	1993	1994	1995	1996	1997
Net broadcast revenue (a)	\$ 69,532	\$ 118,611	\$ 187,934	\$ 346,459	\$ 471,228
Barter revenue	6,892	10,743	18,200	32,029	45,207
Total revenue	76,424	129,354	206,134	378,488	516,435
Operating costs (b)	26,665	41,338	64,326	142,576	198,262
Expenses from barter arrangements	5,630	9,207	16,120	25,189	38,114
Depreciation and amortization (c)	22,486	55,587	80,410	121,081	152,170
Stock-based compensation	—	—	—	739	1,636
Special bonuses paid to executive officers	10,000	3,638	—	—	—
Broadcast operating income	11,643	19,584	45,278	88,903	126,253
Interest expense	(12,852)	(25,418)	(39,253)	(84,314)	(98,393)
Subsidiary trust minority interest expense (d)	—	—	—	—	(18,600)
Interest and other income	2,131	2,447	4,163	3,478	2,228
Income (loss) before (provision) benefit for income taxes and extraordinary items	\$ 922	\$ (3,387)	\$ 10,188	\$ 8,067	\$ 11,488
Net income (loss)	\$ (7,945)	\$ (2,740)	\$ 76	\$ 1,131	\$ (10,566)
Net income (loss) available to common shareholders	\$ (7,945)	\$ (2,740)	\$ 76	\$ 1,131	\$ (13,329)
Other Data:					
Broadcast cash flow (e)	\$ 37,498	\$ 67,519	\$ 111,124	\$ 189,216	\$ 243,406
Broadcast cash flow margin (f)	53.9%	56.9%	59.1%	54.6%	51.7%
Adjusted EBITDA (g)	\$ 35,406	\$ 64,547	\$ 105,750	\$ 180,272	\$ 229,000
Adjusted EBITDA margin (f)	50.9%	54.4%	56.3%	52.0%	48.6%
After tax cash flow (h)	\$ 20,850	\$ 24,948	\$ 54,645	\$ 77,484	\$ 104,884
Program contract payments	8,723	14,262	19,938	30,451	51,059
Corporate overhead expense	2,092	2,972	5,374	8,944	14,406
Capital expenditures	528	2,352	1,702	12,609	19,425
Cash flows from operating activities	11,230	20,781	55,986	69,298	96,625
Cash flows from investing activities	1,521	(249,781)	(119,320)	(1,012,225)	(218,990)
Cash flows from financing activities	3,462	213,410	173,338	832,818	259,351
Per Share Data:					
Basic net income (loss) per share before extraordinary items	\$ —	\$ (.09)	\$.15	\$.03	\$ (.20)
Basic net income (loss) per share after extraordinary items	\$ (.27)	\$ (.09)	\$ —	\$.03	\$ (.37)
Diluted net income (loss) per share before extraordinary items	\$ —	\$ (.09)	\$.15	\$.03	\$ (.20)
Diluted net income (loss) per share after extraordinary items	\$ (.27)	\$ (.09)	\$ —	\$.03	\$ (.37)
Balance Sheet Data:					
Cash and cash equivalents	\$ 18,036	\$ 2,446	\$ 112,450	\$ 2,341	\$ 139,327
Total assets	242,917	399,328	605,272	1,707,297	2,034,234
Total debt (i)	224,646	346,270	418,171	1,288,103	1,080,722
HYTOPS (j)	—	—	—	—	200,000
Total stockholders' equity (deficit)	(11,024)	(13,723)	96,374	237,253	543,288

- (a) “Net broadcast revenue” is defined as broadcast revenue net of agency commissions.
- (b) Operating costs include program and production expenses and selling, general and administrative expenses.
- (c) 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 and other assets including amortization of deferred financing costs and costs related to excess syndicated programming.
- (d) Subsidiary trust minority interest expense represents the distributions on the HYTOPS.
- (e) “Broadcast cash flow” is defined as broadcast operating income plus corporate overhead expense, special bonuses paid to executive officers, stock-based compensation, depreciation and amortization (including film amortization and excess syndicated programming), less cash payments for program rights. Cash program payments represent cash payments made for current programs payable and do not necessarily correspond to program usage. Special bonuses paid to executive officers are considered unusual and non-recurring. The Company has presented broadcast cash flow data, which the Company believes are comparable to the data provided by other companies in the industry, because such data are commonly used as a measure of performance for broadcast companies. However, broadcast cash flow does not purport to represent cash provided by operating activities as reflected in the Company’s consolidated statements of cash flows, is not a measure of financial performance under generally accepted accounting principles and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with generally accepted accounting principles.
- (f) “Broadcast cash flow margin” is defined as broadcast cash flow divided by net broadcast revenue. “Adjusted EBITDA margin” is defined as Adjusted EBITDA divided by net broadcast revenue.
- (g) “Adjusted EBITDA” is defined as broadcast cash flow less corporate expenses and is a commonly used measure of performance for broadcast companies. Adjusted EBITDA does not purport to represent cash provided by operating activities as reflected in the Company’s consolidated statements of cash flows, is not a measure of financial performance under generally accepted accounting principles and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with generally accepted accounting principles.
- (h) “After tax cash flow” is defined as net income (loss) available to common shareholders plus extraordinary items (before the effect of related tax benefits), special bonuses paid to executive officers, stock-based compensation, depreciation and amortization (excluding film amortization), and the deferred tax provision (or minus the deferred tax benefit). After tax cash flow is presented here not as a measure of operating results and does not purport to represent cash provided by operating activities. After tax cash flow should not be considered in isolation or as a substitute for measures of performance prepared in accordance with generally accepted accounting principles.
- (i) “Total debt” is defined as long-term debt, net of unamortized discount, and capital lease obligations, including current portion thereof. Total debt does not include the HYTOPS or the Company’s preferred stock.
- (j) HYTOPS represents Company Obligated Mandatorily Redeemable Security of Subsidiary Trust Holding Solely KDSM Senior Debentures representing \$200,000 aggregate liquidation value.

Management's Discussion and Analysis of Financial Condition and Results of Operations

INTRODUCTION

The Company is a diversified broadcasting company that currently owns or programs pursuant to LMAs 35 television stations, and upon consummation of all pending acquisitions and dispositions, the Company will own or program pursuant to LMAs 56 television stations. The Company owns or programs pursuant to LMAs 52 radio stations and upon consummation of all pending acquisitions and dispositions, the Company will own or program pursuant to LMAs 51 radio stations. The Company also has options to acquire two additional radio stations.

The 35 television stations the Company owns or programs pursuant to LMAs are located in 24 geographically diverse markets, with 23 of the stations in the top 51 television DMAs in the United States. Upon consummation of all pending acquisitions and dispositions, the Company will own or program television stations in 37 geographically diverse markets (with 30 of such stations in the top 51 DMAs) and will reach approximately 22.5% of the television households in the United States. The Company currently owns or programs 11 stations affiliated with Fox, 10 with WB, four with ABC, two with NBC, two with UPN, and one with CBS. Five stations operate as independents. Upon consummation of all pending acquisitions and dispositions and the transfer of affiliations pursuant to existing agreements, 23 of the Company's owned or programmed television stations will be Fox affiliates, 11 will be WB affiliates, six will be UPN affiliates, five will be ABC affiliates, three will be NBC affiliates, one will be a CBS affiliate and seven will be operated as independents. Upon consummation of all pending acquisitions and dispositions and transfers of affiliations pursuant to existing agreements, the Company will own or program more stations affiliated with Fox than any other broadcaster.

The Company's radio station group is geographically diverse with a variety of programming formats including country, urban, news/talk/sports, rock and adult contemporary. Of the 52 stations owned or provided programming services by the Company, 19 broadcast on the AM band and 33 on the FM band. The Company owns between three and eight stations in all but one of the 12 radio markets it serves.

The operating revenue of the Company is derived from local and national advertisers and, to a much lesser extent, from television network compensation. The Company's primary operating expenses involved in owning, operating or programming the television and radio stations are syndicated program rights fees, commissions on revenue, employee salaries, news-gathering and promotion. Amortization and depreciation of costs associated with the acquisition of the stations and interest carrying charges are significant factors in determining the Company's overall profitability.

Set forth below are the principal types of broadcast revenue received by the Company's stations for the periods indicated and the percentage contribution of each type to the Company's total gross broadcast revenue:

BROADCAST REVENUE

(dollars in thousands)

	Years ended December 31,					
	1995		1996		1997	
Local/regional advertising	\$104,299	47.5%	\$199,029	49.4%	\$287,860	52.7%
National advertising	113,678	51.7	191,449	47.6	250,445	45.9
Network compensation	442	0.2	3,907	1.0	5,479	1.0
Political advertising	197	0.1	6,972	1.7	1,189	0.2
Production	1,115	0.5	1,142	0.3	1,239	0.2
Broadcast revenue	219,731	100.0%	402,499	100.0%	546,212	100.0%
Less: agency commissions	(31,797)		(56,040)		(74,984)	
Broadcast revenue, net	187,934		346,459		471,228	
Barter revenue	18,200		32,029		45,207	
Total revenue	\$206,134		\$378,488		\$516,435	

The Company's primary types of programming and their approximate percentages of 1997 net broadcast revenue were network programming (14.9%), children's programming (5.3%) and other syndicated programming (79.8%). The Company's four largest categories of advertising and their approximate percentages of 1997 net broadcast revenue were automotive (20.0%), movies (6.7%), fast food advertising (6.4%) and retail/department

stores (6.2%). No other advertising category accounted for more than 6% of the Company's net broadcast revenue in 1997. No individual advertiser accounted for more than 5% of any individual Company station's net broadcast revenue in 1997.

The following table sets forth certain operating data of the Company for the years ended December 31, 1995, 1996 and 1997. For definitions of items, see footnotes on page 18 of this document.

OPERATING DATA

(dollars in thousands)

	Years ended December 31,		
	1995	1996	1997
Net broadcast revenue.....	\$187,934	\$346,459	\$471,228
Barter revenue	18,200	32,029	45,207
Total revenue	206,134	378,488	516,435
Operating costs	64,326	142,576	198,262
Expenses from barter arrangements	16,120	25,189	38,114
Depreciation and amortization	80,410	121,081	152,170
Stock-based compensation.....	—	739	1,636
Broadcast operating income	\$ 45,278	\$ 88,903	\$126,253
Broadcast Cash Flow (BCF) Data:			
Television BCF.....	\$111,124	\$175,212	\$221,631
Radio BCF.....	—	14,004	21,775
Consolidated BCF	\$111,124	\$189,216	\$243,406
Television BCF margin	59.1%	56.7%	54.4%
Radio BCF margin	—	37.3%	34.1%
Consolidated BCF margin	59.1%	54.6%	51.7%
Other Data:			
Adjusted EBITDA	\$105,750	\$180,272	\$229,000
Adjusted EBITDA margin	56.3%	52.0%	48.6%
After tax cash flow.....	\$ 54,645	\$ 77,484	\$104,884
Program contract payments.....	19,938	30,451	51,059
Corporate expense	5,374	8,944	14,406
Capital expenditures	1,702	12,609	19,425

RESULTS OF OPERATIONS

YEARS ENDED DECEMBER 31, 1996 AND 1997

Net broadcast revenue increased \$124.7 million, or 36.0%, to \$471.2 million for the year ended December 31, 1997 from \$346.5 million for the year ended December 31, 1996. The increase in net broadcast revenue for the year ended December 31, 1997 as compared to the year ended December 31, 1996 was comprised of \$114.5 million related to television and radio station acquisitions and LMA transactions consummated during 1996 and 1997 (the "Acquisitions") and \$10.2 million that resulted from an increase in net broadcast revenue on a same station basis. Also on a same station basis, revenue from local and national advertisers grew 7.7% and 4.9%, respectively, for a combined growth rate of 6.1%.

Total operating costs increased \$55.7 million, or 39.1%, to \$198.3 million for the year ended December 31, 1997 from \$142.6 million for the year ended December 31, 1996. The increase in operating costs for the year ended December 31, 1997 as compared to the year ended December 31, 1996 comprised \$49.0 million related to the Acquisitions, \$5.4 million from an increase in corporate overhead expenses, and \$1.3 million from an increase in operating costs on a same station basis. On a same station basis, operating costs increased 1.8%.

Broadcast operating income increased to \$126.3 million for the year ended December 31, 1997, from \$88.9 million for the year ended December 31, 1996, or 42.1%. The increase in broadcast operating income for the year ended December 31, 1997 as compared to the year ended December 31, 1996 was primarily attributable to the Acquisitions.

Interest expense increased to \$98.4 million for the year ended December 31, 1997 from \$84.3 million for the year ended December 31, 1996, or 16.7%. The increase in interest expense for the year ended December 31, 1997 primarily related to indebtedness incurred by the Company to finance the Acquisitions. Subsidiary trust minority interest expense of \$18.6 million for the year ended December 31, 1997 is related to the issuance of the HYTOPS, which was completed March 12, 1997. Subsidiary trust minority interest expense was partially offset by reductions in interest expense because a portion of the proceeds of the sale of the HYTOPS was used to reduce indebtedness under the Company's Bank Credit Agreement.

Interest and other income decreased to \$2.2 million for the year ended December 31, 1997 from \$3.5 million for the year ended December 31, 1996. This decrease was primarily due to lower average cash balances during these periods.

For the reasons described above, net loss for the year ended December 31, 1997 was \$10.6 million or \$.37 per share compared to net income of \$1.1 million or \$.03 per share for the year ended December 31, 1996.

Broadcast Cash Flow increased \$54.2 million to \$243.4 million for the year ended December 31, 1997 from \$189.2 million for the year ended December 31, 1996, or 28.6%. The increase in Broadcast Cash Flow was comprised of \$45.0 million relating to the Acquisitions and \$9.2 million that resulted from Broadcast Cash Flow growth on a same station basis, which had Broadcast Cash Flow growth of 8.2%. The Company's Broadcast Cash Flow Margin decreased to 51.7% for the year ended December 31, 1997 from 54.6% for the year ended December 31, 1996. The decrease in Broadcast Cash Flow Margin for the year ended December 31, 1997 as compared to the year ended December 31, 1996 primarily resulted from the lower margins related to the 1996 Acquisitions. In addition, 1996 Broadcast Cash Flow Margin benefited from a non-recurring \$4.7 million timing lag of program contract payments relating to the River City Acquisition and certain other acquisitions. On a same station basis, Broadcast Cash Flow Margin improved from 57.3% for the year ended December 31, 1996 to 58.9% for the year ended December 31, 1997.

Adjusted EBITDA represents Broadcast Cash Flow less corporate expenses. Adjusted EBITDA increased to \$229.0 million for the year ended December 31, 1997 from \$180.3 million for the year ended December 31, 1996, or 27.0%. The increase in Adjusted EBITDA for the year ended December 31, 1997 as compared to the year ended December 31, 1996 resulted from the Acquisitions and to a lesser extent, increases in net broadcast revenue on a same station basis. The Company's Adjusted EBITDA margin decreased to 48.6% for the year ended December 31, 1997 from 52.0% for the year ended December 31, 1996. This decrease in Adjusted EBITDA margin resulted primarily from the circumstances affecting Broadcast Cash Flow margins as noted above combined with an increase in corporate expenses. Corporate overhead expenses increased to \$14.4 million for the year ended December 31, 1997 from \$8.9 million for the year ended December 31, 1996, or 61.8%. The increase in corporate expenses primarily resulted from costs associated with managing a larger base of operations. During 1996, the Company increased the size of its corporate staff as a result of the addition of a radio business segment and a significant increase in the number of television stations owned, operated or programmed. The costs associated with this increase in staff were only incurred during a partial period of the year ended December 31, 1996.

After Tax Cash Flow increased to \$104.9 million for the year ended December 31, 1997 from \$77.5 million for the year ended December 31, 1996, or 35.4%. The increase in After Tax Cash Flow for the year ended December 31, 1997 as compared to the year ended December 31, 1996 primarily resulted from the Acquisitions, an increase in revenues on a same station basis, a Federal income tax receivable of \$10.6 million resulting from 1997 NOL carry-backs, offset by interest expense on the debt incurred to consummate the Acquisitions and subsidiary trust minority interest expense related to the private placement of the HYTOPS issued during March 1997.

YEARS ENDED DECEMBER 31, 1995 AND 1996

Total revenue increased to \$378.5 million, or 83.6%, for the year ended December 31, 1996 from \$206.1 million for the year ended December 31, 1995. Excluding the effects of non-cash barter transactions, net broadcast revenue for the year ended December 31, 1996 increased by 84.4% over the year ended December 31, 1995. The increase in broadcast revenue was primarily the result of acquisitions and LMA transactions consummated by the Company in 1995 (the "1995 Acquisitions") and 1996. For stations owned, operated or programmed throughout

1995 and 1996, television broadcast revenue grew 2.1% for the year ended December 31, 1996 when compared to the year ended December 31, 1995. For stations owned, operated or programmed throughout 1994 and 1995, television broadcast revenue grew 12.8% for the year ended December 31, 1995 when compared to the year ended December 31, 1994. The decrease in 1996 revenue growth as compared to 1995 revenue growth primarily resulted from the loss in 1996 of the Fox affiliation at WTTO in the Birmingham market, the loss of the NBC affiliation at WRDC in the Raleigh/Durham market and decreases in ratings at WCGV and WNUV in the Milwaukee and Baltimore markets, respectively.

Operating expenses excluding depreciation, amortization of intangible assets, stock-based compensation and excess syndicated programming costs increased to \$167.8 million, or 108.7%, for the year ended December 31, 1996 from \$80.4 million for the year ended December 31, 1995. The increase in expenses for the year ended December 31, 1996 as compared to the year ended December 31, 1995 was largely attributable to operating costs associated with the 1995 and 1996 Acquisitions, an increase in LMA fees resulting from LMA transactions and an increase in corporate overhead expenses.

Broadcast operating income increased to \$88.9 million for the year ended December 31, 1996, from \$45.3 million for the year ended December 31, 1995, or 96.2%. The increase in broadcast operating income for the year ended December 31, 1996 as compared to the year ended December 31, 1995 was primarily attributable to the 1995 and 1996 Acquisitions.

Interest expense increased to \$84.3 million for the year ended December 31, 1996 from \$39.3 million for the year ended December 31, 1995, or 114.5%. The increase in interest expense for the year ended December 31, 1996 was primarily related to senior bank indebtedness incurred by the Company to finance the River City Acquisition and other acquisitions.

Interest and other income decreased to \$3.5 million for the year ended December 31, 1996 from \$4.2 million for the year ended December 31, 1995, or 16.7%. The decrease for the year ended December 31, 1996 was primarily due to lower cash balances and related interest income resulting from cash payments made in February 1996 when the Company made a \$34.4 million payment relating to the WSMH acquisition and April 1996 when the Company made a \$60 million down payment relating to the River City Acquisition. The decrease in interest income was offset by an increase in other income resulting from the 1995 and 1996 Acquisitions.

For the reasons described above, net income for the year ended December 31, 1996 was \$1.1 million or \$0.03 per share compared to net income of \$5.0 million or \$0.15 per share for the year ended December 31, 1995 before the extraordinary loss on early extinguishment of debt.

Broadcast Cash Flow increased to \$189.2 million for the year ended December 31, 1996 from \$111.1 million for the year ended December 31, 1995, or 70.3%. The increase in Broadcast Cash Flow for the year ended December 31, 1996 as compared to the year ended December 31, 1995 primarily resulted from the 1995 and 1996 Acquisitions. For stations owned, operated or programmed throughout 1995 and 1996, Broadcast Cash Flow grew 1.3% for the year ended December 31, 1996 when compared to the year ended December 31, 1995. For stations owned, operated or programmed throughout 1994 and 1995, Broadcast Cash Flow grew 23.7% for the year ended December 31, 1995 when compared to the year ended December 31, 1994. The decrease in 1996 Broadcast Cash Flow growth as compared to 1995 Broadcast Cash Flow growth primarily resulted from the loss in 1996 of the Fox affiliation at WTTO in the Birmingham market, the loss of the NBC affiliation at WRDC in the Raleigh/Durham market and decreases in ratings at WCGV and WNUV in the Milwaukee and Baltimore markets,

respectively. The Company's Broadcast Cash Flow Margin decreased to 54.6% for the year ended December 31, 1996 from 59.1% for the year ended December 31, 1995. Excluding the effect of radio station Broadcast Cash Flow, television station Broadcast Cash Flow Margin decreased to 56.7% for the year ended December 31, 1996 as compared to 59.1% for the year ended December 31, 1995. The decrease in Broadcast Cash Flow Margins for the year ended December 31, 1996 as compared to the year ended December 31, 1995 primarily resulted from the lower margins of the acquired radio broadcasting assets and lower margins of certain of the acquired television stations. For stations owned, operated or programmed throughout 1996 and 1995, Broadcast Cash Flow Margins were unchanged when comparing the years ended December 31, 1996 and 1995. The Company believes that margins of certain of the acquired stations will improve as operating and programming synergies are implemented.

Adjusted EBITDA increased to \$180.3 million for the year ended December 31, 1996 from \$105.8 million for the year ended December 31, 1995, or 70.4%. The increase in Adjusted EBITDA for the year ended December 31, 1996 as compared to the year ended December 31, 1995 resulted from the 1995 and 1996 Acquisitions. The Company's Adjusted EBITDA margin decreased to 52.0% for the year ended December 31, 1996 from 56.3% for the year ended December 31, 1995. The decrease in Adjusted EBITDA margins for the year ended December 31, 1996 as compared to the year ended December 31, 1995 primarily resulted from higher operating costs at certain of the acquired stations.

After Tax Cash Flow increased to \$77.5 million for the year ended December 31, 1996 from \$54.6 million for the year ended December 31, 1995, or 41.9%. The increase in After Tax Cash Flow for the year ended December 31, 1996 as compared to the year ended December 31, 1995 primarily resulted from the 1995 and 1996 Acquisitions offset by interest expense on the debt incurred to consummate these acquisitions.

LIQUIDITY AND CAPITAL RESOURCES

As of December 31, 1997, the Company had \$139.3 million in cash balances and net working capital of approximately \$176.0 million. The Company's primary sources of liquidity are cash provided by operations and availability under the 1997 Bank Credit Agreement. As of March 10, 1998, the Company's cash balances decreased to approximately \$10.1 million as a result of closing on certain of the Heritage television stations. Also as of March 10, 1998, approximately \$239.8 million was available for borrowing under the 1997 Bank Credit Agreement. An additional \$89.6 million is available to the Company under its Revolving Credit Commitment to the extent future acquisitions provide incremental EBITDA. In addition, the 1997 Bank Credit Agreement provides for a Tranche C Term Loan in the amount of up to \$400 million which can be utilized upon approval by the Agent bank and upon raising sufficient commitments to fund the additional loans.

Net cash flows from operating activities increased to \$96.6 million for the year ended December 31, 1997 from \$69.3 million for the year ended December 31, 1996. The Company made income tax payments of \$6.5 million for the year ended December 31, 1997 as compared to \$6.8 million for the year ended December 31, 1996. The Company made interest payments on outstanding indebtedness of \$98.5 million during the year ended December 31, 1997 as compared to \$82.8 million for the year ended December 31, 1996. Additional interest payments for the year ended December 31, 1997 as compared to the year ended December 31, 1996 primarily related to additional interest costs on indebtedness incurred to finance the 1996 Acquisitions. The Company made subsidiary trust minority interest expense payments of \$17.6 million for the year ended December 31, 1997 related to the issuance of HYTOPS completed in March 1997. Program rights payments increased to \$51.1 million for the year ended December 31, 1997 from \$30.5 million for the year ended December 31, 1996, primarily as a result of the 1996 Acquisitions.

Net cash flows used in investing activities decreased to \$219.0 million for the year ended December 31, 1997 from \$1.0 billion for the year ended December 31, 1996. During the year ended December 31, 1997, the Company made cash payments of \$87.5 million to acquire the license and non-license assets of KUPN-TV in Las Vegas, Nevada, utilizing indebtedness under the 1997 Bank Credit Agreement and existing cash balances. During the year ended December 31, 1997, the Company incurred option extension payments and other costs of \$16.0 million relating to WSYX-TV in Columbus, Ohio. The Company made purchase option exercise payments of \$11.1 million during the year ended December 31, 1997 exercising options to acquire certain FCC licenses related to the River City Acquisition. The Company made payments for property and equipment of \$19.4 million for the year ended December 31, 1997. During the year ended December 31, 1997, the Company made deposits and incurred other costs relating to the Heritage Acquisition, the Max Media Acquisition and other acquisitions of \$66.1 million, \$12.8 million and \$3.4 million, respectively. The Company anticipates that future requirements for capital expenditures will include capital expenditures incurred during the ordinary course of business (which will include costs associated with the implementation of digital television technology) and the cost of additional acquisitions of television and radio stations if suitable acquisitions can be identified on acceptable terms.

Net cash flows provided by financing activities decreased to \$259.4 million for the year ended December 31, 1997 from \$832.8 million for the year ended December 31, 1996. In March 1997, the Company completed issuance of the HYTOPS. The Company utilized \$135 million of the approximately \$192.8 million net proceeds of the issuance of the HYTOPS to repay outstanding debt and retained the remainder for general corporate purposes, which included the acquisition of KUPN-TV in Las Vegas, Nevada. The Company made payments totaling \$4.6 million to repurchase 186,000 shares of Class A Common Stock during the year ended December 31, 1997. In May 1997, the Company made payments of \$4.7 million related to the amendment of its 1996 Bank Credit Agreement. In the fourth quarter of 1996, the Company negotiated the prepayment of syndicated program contract liabilities for excess syndicated programming assets. In the first quarter of 1997, the Company made final cash payments of \$1.4 million related to these negotiations. In July 1997, the Company issued \$200.0 million aggregate principal amount of 9% Senior Subordinated Notes due 2007 and utilized \$162.5 million of the approximately \$195.6 million net proceeds to repay outstanding indebtedness, retaining the remainder to pay a portion of the \$63 million cash down payment relating to the Heritage Acquisition. In December 1997, the Company completed an issuance of \$250 million aggregate principal amount of 8¾% Senior Subordinated Notes due 2007. The Company received net proceeds from the issuance of \$242.8 million of which \$106.2 million was used to repurchase \$98.1 million aggregate principal amount of the 10% Senior Subordinated Notes, due 2003. The Company retained the remainder of the net proceeds for general corporate purposes which included closing the acquisition of the Heritage television stations serving the Mobile/Pensacola and Charleston/Huntington markets in January 1998.

The Company received net proceeds from the 1997 Preferred Stock Issuance and the 1997 Common Stock Issuance of approximately \$166.9 million and \$151.0 million, respectively. The Company used the majority of these funds to repay existing borrowings under the 1997 Bank Credit Agreement. Contemporaneously with the 1997 Preferred Stock Issuance and the 1997 Common Stock Issuance, the Company and the lenders under the 1997 Bank Credit Agreement entered into an amendment to the 1997 Bank Credit Agreement, the effect of which was to recharacterize \$275 million of indebtedness from the Tranche A Term Loan under the 1997 Bank Credit Agreement to amounts owing under the revolving credit facility under the 1997 Bank Credit Agreement. The Company used \$285.7 million of the net proceeds from the 1997 Preferred Stock Issuance and the 1997 Common Stock Issuance to repay outstanding borrowings under the revolving credit facility, \$8.9 million to repay outstanding amounts under the Tranche A Term Loan and the remaining net proceeds of approximately \$23.3 million for general corporate purposes.

The Company has entered into agreements to acquire additional television stations and radio stations in the Heritage Acquisition, the Lakeland Acquisition, the Max Media Acquisition and the Sullivan Acquisition. The Company also has an option to acquire the assets of WSYX-TV in Columbus, Ohio. The aggregate cash consideration needed to complete the purchase of the remaining stations under the Heritage Acquisition and to complete the Lakeland Acquisition, the Max Media Acquisition and the Sullivan Acquisition and to exercise the WSYX-TV option is expected to be approximately \$1.6 billion (net of anticipated proceeds from sales of stations involved in these acquisitions).

The Company anticipates that funds from operations, existing cash balances and availability of the revolving credit facility under the 1997 Bank Credit Agreement will be sufficient to meet its working capital, capital expenditure commitments (other than commitments for pending acquisitions described above) and debt service requirements for the foreseeable future. The Company intends to finance pending acquisitions through a combination of available cash, the net proceeds from an offering of securities and available borrowings under the 1997 Bank Credit Agreement. The current terms of the 1997 Bank Credit Agreement do not allow the Company to borrow an amount sufficient to finance all of the pending acquisitions. The Company intends to begin discussions with its banks to refinance the Bank Credit Agreement promptly upon the completion an offering of securities. The Company believes that such a refinancing can be accomplished on terms reasonably satisfactory to the Company, but there can be no assurance that the Company will be able to obtain such an amendment on satisfactory terms. The 1997 Bank Credit Agreement and the indentures relating to the Company's 8¾% Senior Subordinated Notes due 2007, 9% Senior Subordinated Notes due 2007 and 10% Senior Subordinated Notes due 2005 restrict the incurrence of additional indebtedness and the use of proceeds of an equity issuance, but these restrictions are not expected to restrict the incurrence of indebtedness or use of proceeds of an equity issuance to finance the pending acquisitions.

INCOME TAXES

Income tax provision increased to \$16.0 million for the year ended December 31, 1997 from a provision of \$6.9 million for the year ended December 31, 1996. The Company's effective tax rate increased to 139.1% for the year ended December 31, 1997 from 86.0% for the year ended December 31, 1996. The increase in the Company's effective tax rate for the year ended December 31, 1997 as compared to the year ended December 31, 1996 primarily resulted from non-deductible goodwill amortization resulting from certain 1995 and 1996 stock acquisitions, a tax liability related to the dividends paid on the Company's Series C Preferred Stock [see Note 9, sub-note (a) to the Company's Consolidated Financial Statements], and state franchise taxes which are not based upon pre-tax income. Management believes that pre-tax income and "earnings and profits" will increase in future years which will result in a lower effective tax rate and utilization of certain tax deductions related to dividends paid on the Company's Series C Preferred Stock.

As of December 31, 1997, the Company has a net deferred tax liability of \$21.5 million as compared to a net deferred tax asset of \$782,000 as of December 31, 1996. This change in deferred taxes primarily relates to deferred tax liabilities associated with book and tax differences relating to the depreciation and amortization of fixed assets and intangible assets, a deferred tax liability generated as a result of a reduction in basis of Series C Preferred Stock [see Note 9, sub-note (a) to the Company's Consolidated Financial Statements], offset by deferred tax assets resulting from Federal and State net operating tax losses (NOLs) incurred during 1997. During the year ended December 31, 1997, the Company carried back certain Federal NOLs to be applied against prior years' Federal taxes paid. These Federal NOL carry-backs resulted in an income tax receivable of \$10.6 million as of December 31, 1997.

The Company's income tax provision increased to \$6.9 million for the year ended December 31, 1996 from \$5.2 million for the year ended December 31, 1995. The Company's effective tax rate increased to 86% for the year ended December 31, 1996 from 51% for the year ended December 31, 1995. The increase for the year ended December 31, 1996 as compared to the year ended December 31, 1995 primarily related to certain financial reporting and income tax differences attributable to certain 1995 and 1996 Acquisitions (primarily non-deductible goodwill resulting from stock acquisitions), and state franchise taxes which are independent of pre-tax income.

The net deferred tax asset decreased to \$782,000 as of December 31, 1996 from \$21.0 million at December 31, 1995. The decrease in the Company's net deferred tax asset as of December 31, 1996 as compared to December 31, 1995 is primarily due to the Company recording deferred tax liabilities of \$18.1 million relating to the acquisition of all of the outstanding stock of Superior in May 1996, adjustments related to certain 1995 acquisitions, and resulting differences between the book and tax basis of the underlying assets.

SEASONALITY

The Company's results usually are subject to seasonal fluctuations, which result in fourth quarter broadcast operating income typically being greater usually than first, second and third quarter broadcast operating income. This seasonality is primarily attributable to increased expenditures by advertisers in anticipation of holiday season consumer spending and an increase in viewership during this period.

YEAR 2000

Certain computer programs have been written using two digits rather than four to define the applicable year, which could result in the computer recognizing a date using "00" as the year 1900 rather than the year 2000. This, in turn, could result in major system failures in miscalculations, and is generally referred to as the "Year 2000" problem. The Company and all of its subsidiaries have implemented computer systems which run substantially all of the Company's principal data processing and financial reporting software applications. The applications software used in these systems are Year 2000 compliant. Presently, the Company does not believe that Year 2000 compliance will result in any material investments, nor does the Company anticipate that the Year 2000 problem will have material adverse effects on the business operations or financial performance of the Company. In addition, the Company is not aware of any Year 2000 problems of its customers, suppliers or network affiliates that will have a material adverse effect on the business, operations or financial performance of the Company. There can be no assurance, however, that the Year 2000 problem will not adversely affect the Company and its business.

Consolidated Balance Sheets

(in thousands)

	As of December 31,	
	1996	1997
ASSETS		
CURRENT ASSETS:		
Cash, and cash equivalents	\$ 2,341	\$ 139,327
Accounts receivable, net of allowance for doubtful accounts of \$2,472 and \$2,920, respectively	112,313	123,018
Current portion of program contract costs	44,526	46,876
Prepaid expenses and other current assets	3,704	4,673
Deferred barter costs	3,641	3,727
Refundable income taxes	—	10,581
Deferred tax assets	1,245	2,550
Total current assets	167,770	330,752
PROGRAM CONTRACT COSTS, less current portion	43,037	40,609
LOANS TO OFFICERS AND AFFILIATES	11,426	11,088
PROPERTY AND EQUIPMENT, net	154,333	161,714
NON-COMPETE AND CONSULTING AGREEMENTS, net of accumulated amortization of \$54,236 and \$64,229, respectively	10,193	200
OTHER ASSETS	64,235	167,895
ACQUIRED INTANGIBLE BROADCASTING ASSETS, net of accumulated amortization of \$85,155 and \$138,061, respectively	1,256,303	1,321,976
Total Assets	<u>\$1,707,297</u>	<u>\$2,034,234</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 11,886	\$ 5,207
Income taxes payable	730	—
Accrued liabilities	35,074	40,532
Current portion of long-term liabilities—		
Notes payable and commercial bank financing	62,144	35,215
Notes and capital leases payable to affiliates	1,774	3,073
Program contracts payable	58,461	66,404
Deferred barter revenue	3,576	4,273
Total current liabilities	173,645	154,704
LONG-TERM LIABILITIES:		
Notes payable and commercial bank financing	1,212,000	1,022,934
Notes and capital leases payable to affiliates	12,185	19,500
Program contracts payable	56,194	62,408
Deferred tax liability	463	24,092
Other long-term liabilities	2,739	3,611
Total liabilities	1,457,226	1,287,249
MINORITY INTEREST IN CONSOLIDATED SUBSIDIARIES	3,880	3,697
COMMITMENTS AND CONTINGENCIES EQUITY PUT OPTIONS	8,938	—
COMPANY OBLIGATED MANDATORILY REDEEMABLE SECURITIES OF SUBSIDIARY TRUST HOLDING SOLELY KD SM SENIOR DEBENTURES	—	200,000
STOCKHOLDERS' EQUITY:		
Series B Preferred stock, \$.01 par value, 10,000,000 shares authorized and 1,150,000 and 1,071,381 issued and outstanding	11	10
Series D Preferred stock, \$.01 par value, 3,450,000 shares authorized and -0- and 3,450,000 shares issued and outstanding, respectively	—	35
Class A Common stock, \$.01 par value, 100,000,000 shares authorized and 6,911,880 and 13,733,430 shares issued and outstanding, respectively	70	137
Class B Common stock, \$.01 par value, 35,000,000 shares authorized and 27,850,581 and 25,436,432 shares issued and outstanding	279	255
Additional paid-in capital	256,954	552,949
Additional paid-in capital—equity put options	—	23,117
Additional paid-in capital—deferred compensation	(1,129)	(954)
Accumulated deficit	(18,932)	(32,261)
Total stockholders' equity	237,253	543,288
Total Liabilities and Stockholders' Equity	<u>\$1,707,297</u>	<u>\$2,034,234</u>

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

Consolidated Statements of Operations For the Years Ended December 31, 1995, 1996 and 1997

(in thousands, except per share data)

	1995	1996	1997
REVENUE:			
Station broadcast revenue, net of agency commissions of \$31,797, \$56,040 and \$74,984, respectively	\$187,934	\$346,459	\$471,228
Revenue realized from station barter arrangements.....	18,200	32,029	45,207
Total revenue.....	206,134	378,488	516,435
OPERATING EXPENSES:			
Program and production	28,152	66,652	92,178
Selling, general and administrative	36,174	75,924	106,084
Expenses realized from station barter arrangements.....	16,120	25,189	38,114
Amortization of program contract costs and net realizable value adjustments	29,021	47,797	66,290
Stock-based compensation.....	—	739	1,636
Depreciation and amortization of property and equipment.....	5,400	11,711	18,040
Amortization of acquired intangible broadcasting assets, non-compete and consulting agreements and other assets	45,989	58,530	67,840
Amortization of excess syndicated programming	—	3,043	—
Total operating expenses	160,856	289,585	390,182
Broadcast operating income	45,278	88,903	126,253
OTHER INCOME (EXPENSE):			
Interest and amortization of debt discount expense.....	(39,253)	(84,314)	(98,393)
Subsidiary trust minority interest expense.....	—	—	(18,600)
Interest income	3,942	3,136	2,174
Other income	221	342	54
Income before provision for income taxes and extraordinary item.....	10,188	8,067	11,488
PROVISION FOR INCOME TAXES	5,200	6,936	15,984
Net income (loss) before extraordinary item	4,988	1,131	(4,496)
EXTRAORDINARY ITEM:			
Loss on early extinguishment of debt, net of related income tax benefit of \$3,357 and \$4,045, respectively	(4,912)	—	(6,070)
NET INCOME (LOSS)	\$ 76	\$ 1,131	\$ (10,566)
NET INCOME (LOSS) AVAILABLE TO COMMON SHAREHOLDERS	\$ 76	\$ 1,131	\$ (13,329)
BASIC EARNINGS PER SHARE:			
Income (loss) per share before extraordinary item.....	\$.15	\$.03	\$ (.20)
Net income (loss) per share	\$ —	\$.03	\$ (.37)
Average shares outstanding	32,198	34,748	35,951
DILUTED EARNINGS PER SHARE:			
Income (loss) per share before extraordinary item.....	\$.15	\$.03	\$ (.20)
Net income (loss) per share	\$ —	\$.03	\$ (.37)
Average shares outstanding	32,205	37,381	40,078

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

Consolidated Statements of Stockholders' Equity For the Years Ended December 31, 1995, 1996 and 1997

(in thousands)

Page 1 of 2

	Series A Preferred Stock	Series B Preferred Stock	Class A Common Stock	Class B Common Stock	Additional Paid-In Capital	Additional Paid-In Capital— Deferred Compensation	Accumulated Deficit	Total Stockholders' Equity
BALANCE,								
December 31, 1994.....	\$ —	\$ —	\$ —	\$ 290	\$ 4,774	\$ —	\$ (18,787)	\$ (13,723)
Issuance of common shares, net of related expenses of \$9,288.....	—	—	58	—	111,403	—	—	111,461
Non-cash distribution prior to KCI merger	—	—	—	—	(109)	—	(1,352)	(1,461)
Realization of deferred gain	—	—	—	—	21	—	—	21
Net income.....	—	—	—	—	—	—	76	76
BALANCE,								
December 31, 1995	—	—	58	290	116,089	—	(20,063)	96,374
Class B Common Stock converted into Class A Common Stock	—	—	11	(11)	—	—	—	—
Issuance of Series A Preferred Stock.....	12	—	—	—	125,067	—	—	125,079
Series A Preferred Stock converted into Series B Preferred Stock.....	(12)	12	—	—	—	—	—	—
Series B Preferred Stock converted into Class A Common Stock	—	(1)	1	—	—	—	—	—
Repurchase of 30,000 shares of Class A Common Stock	—	—	—	—	(748)	—	—	(748)
Stock option grants	—	—	—	—	25,784	(1,868)	—	23,916
Income tax provision for deferred compensation	—	—	—	—	(300)	—	—	(300)
Equity put options	—	—	—	—	(8,938)	—	—	(8,938)
Amortization of deferred compensation	—	—	—	—	—	739	—	739
Net income.....	—	—	—	—	—	—	1,131	1,131
BALANCE,								
December 31, 1996.....	\$ —	\$ 11	\$ 70	\$ 279	\$ 256,954	\$ (1,129)	\$ (18,932)	\$ 237,253

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

Consolidated Statements of Stockholders' Equity For the Years Ended December 31, 1995, 1996 and 1997

(in thousands)

Page 2 of 2

	Series B Preferred Stock	Series D Preferred Stock	Class A Common Stock	Class B Common Stock	Additional Paid-In Capital	Additional Paid-In Capital— Equity Put Options	Additional Paid-In Capital— Deferred Compensation	Accumulated Deficit	Total Stockholders' Equity
BALANCE, December 31, 1996	\$11	\$—	\$ 70	\$279	\$256,954	\$ —	\$(1,129)	\$(18,932)	\$237,253
Repurchase of 186,000 shares of Class A Common Stock...	—	—	(2)	—	(4,597)	—	—	—	(4,599)
Class B Common Stock converted into Class A Common Stock...	—	—	24	(24)	—	—	—	—	—
Series B Preferred Stock converted into Class A Common Stock...	(1)	—	2	—	(1)	—	—	—	—
Issuance of Class A Common Stock, net of related issuance costs of \$7,572.....	—	—	43	—	150,978	—	—	—	151,021
Issuance of Series D Preferred Stock, net of related issuance costs of \$5,601.....	—	35	—	—	166,864	—	—	—	166,899
Dividends payable on Series D Preferred Stock ...	—	—	—	—	—	—	—	(2,763)	(2,763)
Income tax provision for deferred compensation	—	—	—	—	(240)	—	—	—	(240)
Equity put options ..	—	—	—	—	(14,179)	23,117	—	—	8,938
Equity put options premium	—	—	—	—	(3,365)	—	—	—	(3,365)
Stock option grants	—	—	—	—	430	—	(430)	—	—
Stock option grants exercised.....	—	—	—	—	105	—	—	—	105
Amortization of deferred compensation	—	—	—	—	—	—	605	—	605
Net loss	—	—	—	—	—	—	—	(10,566)	(10,566)
BALANCE, December 31, 1997	\$10	\$35	\$137	\$255	\$552,949	\$23,117	\$ (954)	\$(32,261)	\$543,288

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

Consolidated Statements of Cash Flows

For the Years Ended December 31, 1995, 1996 and 1997

(in thousands)

Page 1 of 2
1997

	1995	1996	1997
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss)	\$ 76	\$ 1,131	\$ (10,566)
Adjustments to reconcile net income (loss) to net cash flows			
from operating activities—			
Extraordinary loss	8,269	—	10,115
Amortization of excess syndicated programming	—	3,043	—
Amortization of debt discount	—	—	4
(Gain) loss on sales of assets	(221)	—	226
Depreciation and amortization of property and equipment	5,400	11,711	18,040
Amortization of acquired intangible broadcasting assets,			
non-compete and consulting agreements and other assets	45,989	58,530	67,840
Amortization of program contract costs and			
net realizable value adjustments	29,021	47,797	66,290
Stock-based compensation	—	739	1,636
Deferred tax provision (benefit)	(5,089)	2,330	20,582
Realization of deferred gain	(42)	—	—
Net effect of change in deferred barter revenue			
and deferred barter costs	230	(908)	591
Decrease in minority interest	(38)	(121)	(183)
Changes in assets and liabilities, net of effects of acquisitions			
and dispositions—			
Increase in accounts receivable, net	(12,245)	(41,310)	(9,468)
Increase in prepaid expenses and other current assets	(273)	(217)	(591)
Increase in refundable income taxes	—	—	(10,581)
Increase (decrease) in accounts payable and accrued liabilities	7,274	19,941	(4,360)
Decrease in income taxes payable	(2,427)	(3,214)	(970)
Increase (decrease) in other long-term liabilities	—	297	(921)
Payments on program contracts payable	(19,938)	(30,451)	(51,059)
Net cash flows from operating activities	\$ 55,986	\$ 69,298	\$ 96,625

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

Consolidated Statements of Cash Flows **For the Years Ended December 31, 1995, 1996 and 1997**

(in thousands)

Page 2 of 2

	1995	1996	1997
NET CASH FLOWS FROM OPERATING ACTIVITIES.....	\$ 55,986	\$ 69,298	\$ 96,625
CASH FLOWS FROM INVESTING ACTIVITIES:			
Acquisition of property and equipment	(1,702)	(12,609)	(19,425)
Payments for acquisition of television and radio station assets	(101,000)	(74,593)	(90,598)
Payments related to the acquisition of the non-license assets of River City Broadcasting	—	(818,083)	(2,992)
Payments for acquisition of certain other non-license assets	(14,283)	(29,532)	—
Payments for the purchase of outstanding stock of Superior Communications, Inc.	—	(63,504)	—
Payments to exercise options to acquire certain FCC licenses	—	(6,894)	(11,079)
Proceeds from assignment of FCC purchase option	4,200	—	2,000
Purchase option extension payments	—	(6,960)	(15,966)
Payments for consulting and non-compete agreements	(1,000)	(50)	—
Payments to acquire and exercise purchase options	(10,000)	—	—
Distributions from (investments in) joint ventures	240	(380)	380
Proceeds from disposal of property and equipment	3,330	—	470
Payment for WPTT subordinated convertible debenture	(1,000)	—	—
Loans to officers and affiliates	(205)	(854)	(1,199)
Repayments of loans to officers and affiliates	2,177	1,562	1,694
Deposits and other costs relating to future acquisitions	(77)	(328)	(82,275)
Net cash flows used in investing activities	(119,320)	(1,012,225)	(218,990)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from notes payable and commercial bank financing	138,000	982,500	126,500
Repayments of notes payable, commercial bank financing and capital leases	(362,928)	(110,657)	(693,519)
Repayments of notes and capital leases to affiliates	(3,171)	(1,867)	(2,313)
Payments of costs related to financing	(3,200)	(20,009)	(4,707)
Payments for interest rate derivative agreements	—	(851)	(474)
Prepayments of excess syndicated program contract liabilities	—	(15,116)	(1,373)
Repurchases of the Company's Class A Common Stock	—	(748)	(4,599)
Payments relating to redemption of 1993 Notes	—	—	(98,101)
Payment of premium and other costs related to redemption of 1993 Notes	—	—	(8,407)
Payments for costs related to subsequent year securities offering	—	(434)	—
Dividends paid on Series D Preferred Stock	—	—	(2,357)
Proceeds from exercise of stock options	—	—	105
Payment of equity put option premium	—	—	(507)
Net proceeds from issuances of Senior Subordinated Notes	293,176	—	438,427
Net proceeds from issuance of Class A Common Stock	111,461	—	151,021
Net proceeds from issuance of Series D Preferred Stock	—	—	166,899
Net proceeds from subsidiary trust securities offering	—	—	192,756
Net cash flows from financing activities	173,338	832,818	259,351
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	110,004	(110,109)	136,986
CASH AND CASH EQUIVALENTS, beginning of period	2,446	112,450	2,341
CASH AND CASH EQUIVALENTS, end of period	\$ 112,450	\$ 2,341	\$ 139,327

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

Notes to Consolidated Financial Statements December 31, 1995, 1996 and 1997

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

The accompanying consolidated financial statements include the accounts of Sinclair Broadcast Group, Inc., Sinclair Communications, Inc. and all other consolidated subsidiaries, which are collectively referred to hereafter as “the Company, Companies or SBG.” The Company owns and operates television and radio stations throughout the United States. Additionally, included in the accompanying consolidated financial statements are the results of operations of certain television stations pursuant to local marketing agreements (LMAs) and radio stations pursuant to joint sales agreements (JSAs).

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the Company and all its wholly-owned and majority-owned subsidiaries. Minority interest represents a minority owner’s proportionate share of the equity in two of the Company’s subsidiaries. In addition, the Company uses the equity method of accounting for 20% to 50% ownership investments. All significant intercompany transactions and account balances have been eliminated.

USE OF ESTIMATES

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses in the financial statements and in the disclosures of contingent assets and liabilities. While actual results could differ from those estimates, management believes that actual results will not be materially different from amounts provided in the accompanying consolidated financial statements.

CASH EQUIVALENTS

Cash equivalents are stated at cost plus accrued interest, which approximates fair value. Cash equivalents are highly liquid investment grade debt instruments with an original maturity of three months or less and consist of time deposits with a number of consumer banks with high credit ratings.

PROGRAMMING

The Companies have agreements with distributors for the rights to television programming over contract periods which generally run from one to seven years. Contract payments are made in installments over terms that are generally shorter than the contract period. Each contract is recorded as an asset and a liability when the license period begins and the program is available for its first showing. The portion of the program contracts payable within one year is reflected as a current liability in the accompanying consolidated balance sheets.

The rights to program materials are reflected in the accompanying consolidated balance sheets at the lower of unamortized cost or estimated net realizable value. Estimated net realizable values are based upon management’s expectation of future advertising revenue net of sales commissions to be generated by the program material. Amortization of program contract costs is generally computed under either a four year accelerated method or based on usage, whichever yields the greater amortization for each program. Program contract costs, estimated by management to be amortized in the succeeding year, are classified as current assets. Payments of program contract liabilities are typically paid on a scheduled basis and are not affected by adjustments for amortization or estimated net realizable value.

BARTER ARRANGEMENTS

Certain program contracts provide for the exchange of advertising air time in lieu of cash payments for the rights to such programming. These contracts are recorded as the programs are aired at the estimated fair value of the advertising air time given in exchange for the program rights. Network programming is excluded from these calculations.

The Company broadcasts certain customers’ advertising in exchange for equipment, merchandise and services. The estimated fair value of the equipment, merchandise or services received is recorded as deferred barter costs and the corresponding obligation to broadcast advertising is recorded as deferred barter revenue. The deferred barter costs

are expensed or capitalized as they are used, consumed or received. Deferred barter revenue is recognized as the related advertising is aired.

OTHER ASSETS

Other assets as of December 31, 1996 and 1997 consist of the following (*in thousands*):

	1996	1997
Unamortized debt acquisition costs	\$26,453	\$ 43,011
Investments in limited partnerships.....	3,039	2,850
Notes receivable.....	10,773	11,102
Purchase options and related extension fees	22,902	27,826
Deposits and other costs relating to future acquisitions.....	328	82,275
Other	740	831
	<u>\$64,235</u>	<u>\$167,895</u>

NON-COMPETE AND CONSULTING AGREEMENTS

The Company has entered into non-compete and consulting agreements with various parties. These agreements range from two to three years. Amounts paid under these agreements are amortized over the life of the agreement.

ACQUIRED INTANGIBLE BROADCASTING ASSETS

Acquired intangible broadcasting assets are being amortized over periods of 1 to 40 years. These amounts result from the acquisition of certain television and radio station license and non-license assets (see Note 12). The Company monitors the individual financial performance of each of the stations and continually evaluates the realizability of intangible and tangible assets and the existence of any impairment to its recoverability based on the projected undiscounted cash flows of the respective stations.

Intangible assets, at cost, as of December 31, 1996 and 1997, consist of the following (*in thousands*):

	Amortization Period	1996	1997
Goodwill.....	40 years	\$ 676,219	\$ 755,858
Intangibles related to LMAs	15 years	120,787	128,080
Decaying advertiser base.....	1-15 years	93,896	95,657
FCC licenses	25 years	370,533	400,073
Network affiliations.....	1-25 years	55,966	55,966
Other	1-40 years	24,057	24,403
		<u>1,341,458</u>	<u>1,460,037</u>
Less—Accumulated amortization.....		<u>(85,155)</u>	<u>(138,061)</u>
		<u>\$1,256,303</u>	<u>\$1,321,976</u>

ACCRUED LIABILITIES

Accrued liabilities consist of the following as of December 31, 1996 and 1997 (*in thousands*):

	1996	1997
Compensation.....	\$10,850	\$10,608
Interest.....	11,915	18,359
Other	12,309	11,565
	<u>\$35,074</u>	<u>\$40,532</u>

SUPPLEMENTAL INFORMATION—STATEMENT OF CASH FLOWS

During 1995, 1996 and 1997 the Company incurred the following transactions (*in thousands*):

	1995	1996	1997
Purchase accounting adjustments related to deferred taxes.....	\$ 3,400	\$ 18,051	\$ —
Capital lease obligations incurred.....	\$ —	\$ —	\$10,927
Issuance of Series A Preferred Stock (see Note 12)	\$ —	\$125,079	\$ —
Income taxes paid.....	\$ 7,941	\$ 6,837	\$ 6,502
Subsidiary trust minority interest payments.....	\$ —	\$ —	\$17,631
Interest paid.....	\$24,770	\$ 82,814	\$98,521

LOCAL MARKETING AGREEMENTS

The Company generally enters into LMAs, JSAs and similar arrangements with stations located in markets in which the Company already owns and operates a station, and in connection with acquisitions, pending regulatory approval of transfer of License Assets. Under the terms of these agreements, the Company makes specified periodic payments to the owner-operator in exchange for the grant to the Company of the right to program and sell advertising on a specified portion of the station's inventory of broadcast time. Nevertheless, as the holder of the Federal Communications Commission (FCC) license, the owner-operator retains full control and responsibility for the operation of the station, including control over all programming broadcast on the station.

Included in the accompanying consolidated statements of operations for the years ended December 31, 1995, 1996 and 1997, is net revenue of \$49.5 million, \$153.0 million (including \$103.3 million relating to River City), and \$135.0 million (including \$71.9 million relating to River City) respectively, that relate to LMAs, JSAs and time brokerage agreements ("TBAs").

In connection with the River City Acquisition, the Company entered into an LMA in the form of TBAs with River City and the owner of KRRT with respect to each of the nine television and 21 radio stations with respect to which the Company acquired Non-License Assets. During 1997, the Company exercised its options and now owns the License Assets of (or has entered into an LMA with respect to) all of these stations of River City, other than WTTV-TV and WTTK-TV in Indianapolis, Indiana.

RECLASSIFICATIONS

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

2. PROPERTY AND EQUIPMENT

Property and equipment are stated at cost, less accumulated depreciation. Depreciation is computed under the straight-line method over the following estimated useful lives:

Buildings and improvements	10–35 years
Station equipment	5–10 years
Office furniture and equipment.....	5–10 years
Leasehold improvements	10–31 years
Automotive equipment.....	3– 5 years
Property and equipment and autos under capital leases.....	Shorter of 10 years or the lease term

Property and equipment consisted of the following as of December 31, 1996 and 1997 (*in thousands*):

	1996	1997
Land and improvements	\$ 9,795	\$ 10,225
Buildings and improvements	39,008	41,436
Station equipment	112,994	130,586
Office furniture and equipment	10,140	14,037
Leasehold improvements	3,377	8,457
Automotive equipment	3,280	4,090
Construction in progress	6,923	—
	185,517	208,831
Less—Accumulated depreciation and amortization	(31,184)	(47,117)
	<u>\$154,333</u>	<u>\$161,714</u>

3. INTEREST RATE DERIVATIVE AGREEMENTS

The Company entered into interest rate derivative agreements to reduce the impact of changing interest rates on its floating rate debt, primarily relating to the 1997 Bank Credit Agreement (see Note 4). The 1997 Bank Credit Agreement, as amended and restated, requires the Company to enter into Interest Rate Protection Agreements at rates not to exceed 9.5% per annum as to a notional principal amount at least equal to 60% of the Tranche A term loans scheduled to be outstanding from time to time and at rates not to exceed 9.75% per annum as to a notional principal amount of 60% of the aggregate amount of Tranche B scheduled to be outstanding from time to time.

As of December 31, 1997, the Company had several interest rate swap agreements relating to the Company's indebtedness which expire from June 10, 1998 to July 15, 2007. The swap agreements set rates in the range of 5.64% to 9.0%. The notional amounts related to these agreements were \$1.0 billion at December 31, 1997, and decrease to \$200 million through the expiration dates. The Company has no intentions of terminating these instruments prior to their expiration dates unless it were to prepay a portion of its bank debt.

The floating interest rates are based upon the three month London Interbank Offered Rate (LIBOR) rate, and the measurement and settlement is performed quarterly. Settlements of these agreements are recorded as adjustments to interest expense in the relevant periods. Premiums paid under these agreements were approximately \$1.1 million in 1994, \$851,000 in 1996 and \$474,000 in 1997 and are amortized over the life of the agreements as a component of interest expense. The counter parties to these agreements are major national financial institutions. The Company estimates the aggregate cost to retire these instruments at December 31, 1997 to be \$726,000.

4. NOTES PAYABLE AND COMMERCIAL BANK FINANCING

FIRST AMENDED AND RESTATED BANK CREDIT AGREEMENT

In connection with the 1994 Acquisitions, the Company amended and restated its Bank Credit Agreement (the "1994 Bank Credit Agreement"). The 1994 Bank Credit Agreement consisted of three classes: Facility A Revolving Credit and Term Loan, Facility B Credit Loan and Facility C Term Loan. In August 1995, the Company utilized the net proceeds from the 1995 Notes discussed below to repay amounts outstanding under the 1994 Bank Credit Agreement.

The weighted average interest rates during 1995, while amounts were outstanding and as of August 28, 1995 (when outstanding indebtedness relating to Bank Credit Agreement were repaid) and December 31, 1995 were 8.44% and 7.63%, respectively. Interest expense relating to the Bank Credit Agreement was \$15.6 million for the year ended December 31, 1995. Simultaneously with the acquisition of the non-license assets of River City, the 1994 Bank Credit Agreement was amended and restated with new terms as outlined below.

SECOND AMENDED AND RESTATED BANK CREDIT AGREEMENT

In order to finance the acquisition of the non-license assets of River City and potential future acquisitions, the Company amended and restated its Bank Credit Agreement on May 31, 1996 (the "1996 Bank Credit Agreement"). The 1996 Bank Credit Agreement consisted of three classes: Tranche A Term Loan, Tranche B Term Loan and a Revolving Credit Commitment.

The Tranche A Term Loan was a term loan in a principal amount not to exceed \$550 million and was scheduled to be paid in quarterly installments beginning December 31, 1996 through December 31, 2002. The Tranche B Term Loan was a term loan in a principal amount not to exceed \$200 million and was scheduled to be paid in quarterly installments beginning December 31, 1996 through November 2003. The Revolving Credit Commitment was a revolving credit facility in a principal amount not to exceed \$250 million and was scheduled to have reduced availability quarterly beginning March 31, 1999 through November 30, 2003. The Company incurred amendment acquisition costs of approximately \$20 million associated with this indebtedness which are being amortized over the life of the debt.

The applicable interest rate for the Tranche A Term Loan and the Revolving Credit Commitment was either LIBOR plus 1.25% to 2.5% or the base rate plus zero to 1.25%. The applicable interest rate for the Tranche A Term Loan and the Revolving Credit Commitment was adjusted based on the ratio of total debt to four quarters trailing earnings before interest, taxes, depreciation and amortization. The applicable interest rate for Tranche B was either LIBOR plus 2.75% or the base rate plus 1.75%. The weighted average interest rates for outstanding indebtedness relating to the 1996 Bank Credit Agreement during 1996 and as of December 31, 1996, were 8.08% and 8.12%, respectively. Interest expense relating to the 1996 Bank Credit Agreement was \$40.4 million for the year ended December 31, 1996. The Company amended and restated the 1996 Bank Credit Agreement as discussed below.

THIRD AMENDED AND RESTATED BANK CREDIT AGREEMENT

In order to expand its capacity and obtain more favorable terms with its syndicate of banks, the Company amended and restated its Bank Credit Agreement in May 1997 (the "1997 Bank Credit Agreement"). In connection with the amendment and restatement, the Company incurred amendment acquisition costs of approximately \$4.7 million, which are being amortized over the life of the debt.

Contemporaneously with the Preferred Stock Offering and the Common Stock Offering (see Notes 15 and 16) consummated in September 1997, the Company amended its 1997 Bank Credit Agreement. The 1997 Bank Credit Agreement, as amended, consists of two classes: Tranche A Term Loan and a Revolving Credit Commitment. The Tranche A Term Loan is a term loan in a principal amount not to exceed \$325 million and is scheduled to be paid in quarterly installments through December 31, 2004. The Revolving Credit Commitment is a revolving credit facility in a principal amount not to exceed \$675 million and is scheduled to have reduced availability quarterly through December 31, 2004. As of December 31, 1997, outstanding indebtedness under the Tranche A Term Loan and the Revolving Credit Commitment were \$307.1 million and \$-0- respectively.

The applicable interest rate for the Tranche A Term Loan and the Revolving Credit Commitment is either LIBOR plus 0.5% to 1.875% or the base rate plus zero to 0.625%. The applicable interest rate for the Tranche A Term Loan and the Revolving Credit Commitment is adjusted based on the ratio of total debt to four quarters' trailing earnings before interest, taxes, depreciation and amortization. The weighted average interest rates for outstanding indebtedness relating to the 1997 Bank Credit Agreement during 1997 and as of December 31, 1997 were 7.43% and 8.5%, respectively. The interest expense relating to the 1997 Bank Credit Agreement was \$46.7 million for the year ended December 31, 1997.

The Company is required to maintain certain debt covenants in connection with the 1997 Bank Credit Agreement. As of December 31, 1997, the Company is in compliance with all debt covenants.

8¾% SENIOR SUBORDINATED NOTES DUE 2007

In December 1997, the Company completed an issuance of \$250 million aggregate principal amount of 8¾% Senior Subordinated Notes due 2007 (the "8¾% Notes") pursuant to the Shelf Registration statement (see Note 14) and generated net proceeds to the Company of \$242.8 million. Of the net proceeds from the issuance, \$106.2 million was utilized to tender the Company's 1993 Notes with the remainder retained for general corporate purposes which may include payments relating to future acquisitions.

Interest on the 8¾% Notes is payable semiannually on June 15 and December 15 of each year, commencing June 15, 1998. Interest expense for the year ended December 31, 1997 was \$0.9 million. The 8¾% Notes are issued under an Indenture among SBG, its subsidiaries (the guarantors) and the trustee. Costs associated with the offering

totaled \$5.8 million, including an underwriting discount of \$5.0 million. These costs were capitalized and are being amortized over the life of the debt.

Based upon the quoted market price, the fair value of the 8¾% Notes as of December 31, 1997 is \$250.6 million.

9% SENIOR SUBORDINATED NOTES DUE 2007

In July 1997, the Company completed an issuance of \$200 million aggregate principal amount of 9% Senior Subordinated Notes due 2007 (the “9% Notes”). The 9% Notes were sold to “qualified institutional buyers” (as defined in Rule 144A under the Securities Act) and a limited number of institutional “accredited investors” and the offering was exempt from registration under the Securities Act, pursuant to Section 4(2) of the Securities Act and Rule 144A thereunder. The Company utilized \$162.5 million of the approximately \$195.6 million net proceeds of the private issuance to repay outstanding revolving credit indebtedness under the 1997 Bank Credit Agreement and utilized the remainder to pay a portion of the \$63 million cash down payment relating to the Heritage Acquisition (see Note 12).

Pursuant to a Registration Rights Agreement entered into in connection with the private placement of the 9% Notes, the Company offered to holders of the 9% Notes the right to exchange the 9% Notes with new 9% Notes (the “Notes Exchange Offer”) having the same terms as the existing notes, except that the exchange of the new Notes for the existing Notes will be registered under the Securities Act. On October 8, 1997 the Company filed a registration statement on Form S-4 with the Securities and Exchange Commission (the “Commission”) for the purpose of registering the new 9% Notes to be offered in exchange for the aforementioned existing 9% Notes. The Company’s Notes Exchange Offer became effective on October 10, 1997 and was closed on November 7, 1997, at which time all of the existing 9% Notes were exchanged for new 9% Notes.

Interest on the 9% Notes is payable semiannually on January 15 and July 15 of each year, commencing January 15, 1998. Interest expense for the year ended December 31, 1997 was \$9.0 million. The 9% Notes are issued under an Indenture among SBG, its subsidiaries (the guarantors) and the trustee. Costs associated with the offering totaled \$4.8 million, including an underwriting discount of \$4.0 million. These costs were capitalized and are being amortized over the life of the debt.

Based upon the quoted market price, the fair value of the 9% Notes as of December 31, 1997 is \$206.4 million.

10% SENIOR SUBORDINATED NOTES DUE 2005

In August 1995, the Company completed an issuance of \$300 million aggregate principal amount of 10% Senior Subordinated Notes (the “1995 Notes”), due 2005, generating net proceeds to the Company of \$293.2 million. The net proceeds of this offering were utilized to repay outstanding indebtedness under the then existing Bank Credit Agreement of \$201.8 million with the remainder being retained and eventually utilized to make payments related to certain acquisitions consummated during 1996. In conjunction with the repayment of outstanding indebtedness under the Bank Credit Agreement, the Company recorded an extraordinary loss of \$4.9 million, net of a tax benefit of \$3.4 million.

Interest on the Notes is payable semiannually on March 30 and September 30 of each year, commencing March 30, 1996. Interest expense for the years ended December 31, 1996 and 1997, was \$30.0 million and \$30.0 million, respectively. The notes are issued under an indenture among SBG, its subsidiaries (the guarantors) and the trustee. Costs associated with the offering totaled \$6.8 million, including an underwriting discount of \$6.0 million and are being amortized over the life of the debt.

Based upon the quoted market price, the fair value of the Notes as of December 31, 1997 is \$322.2 million.

10% SENIOR SUBORDINATED NOTES DUE 2003 AND 1997 TENDER OFFER

In December 1993, the Company completed an issuance of \$200 million aggregate principal amount of 10% Senior Subordinated Notes (the “1993 Notes”), due 2003. Subsequently, the Company determined that a redemption of \$100.0 million was required. This redemption and a refund of \$1.0 million of fees from the underwriters took place in the first quarter of 1994.

In December 1997, the Company completed a tender offer of \$98.1 million aggregate principal amount of the 1993 Notes (the “Tender Offer”). Total consideration per \$1,000 principal amount note tendered was \$1,082.08 resulting in total consideration paid to consummate the Tender Offer of \$106.2 million. In conjunction with the Tender Offer, the Company recorded an extraordinary loss of \$6.1 million, net of a tax benefit of \$4.0 million.

Interest on the Notes not tendered is payable semiannually on June 15 and December 15 of each year. Interest expense for the years ended December 31, 1995, 1996 and 1997, was \$10.0 million, \$10.0 million and \$9.6 million, respectively. The Notes are issued under an Indenture among SBG, its subsidiaries (the guarantors) and the trustee.

SUMMARY

Notes payable and commercial bank financing consisted of the following as of December 31, 1996 and 1997 (*in thousands*):

	1996	1997
Bank Credit Agreement, Tranche A Term Loan.....	\$ 520,000	\$ 307,125
Bank Credit Agreement, Tranche B Term Loan.....	198,500	—
Bank Credit Agreement, Revolving Credit Commitment.....	155,000	—
8¾% Senior Subordinated Notes, due 2007.....	—	250,000
9% Senior Subordinated Notes, due 2007.....	—	200,000
10% Senior Subordinated Notes, due 2003.....	100,000	1,899
10% Senior Subordinated Notes, due 2005.....	300,000	300,000
Installment note for certain real estate interest at 8.0%.....	—	101
Unsecured installment notes to former minority stockholders of CRI and WBFF, interest at 18%.....	644	—
	1,274,144	1,059,125
Less: Discount on 8¾% Senior Subordinated Notes, due 2007.....	—	(976)
Less: Current portion.....	(62,144)	(35,215)
	<u>\$1,212,000</u>	<u>\$1,022,934</u>

The Revolving Credit Commitment is a revolving credit facility in a principal amount not to exceed \$675 million and is scheduled to have reduced availability quarterly beginning March 31, 1999 through December 31, 2004. Indebtedness under Tranche A of the 1997 Bank Credit Agreement and notes payable as of December 31, 1997, mature as follows (*in thousands*):

1998.....	\$ 35,215
1999.....	37,924
2000.....	48,758
2001.....	48,759
2002.....	48,759
2003 and thereafter.....	839,710
	1,059,125
Less: Discount on 8¾% Senior Subordinated Notes, due 2007.....	(976)
	<u>\$1,058,149</u>

Substantially all of the Company’s assets have been pledged as security for notes payable and commercial bank financing. See Note 23 for Guarantor and Non-Guarantor Subsidiaries under the Company’s Indentures.

5. NOTES AND CAPITAL LEASES PAYABLE TO AFFILIATES

Notes and capital leases payable to affiliates consisted of the following as of December 31, 1996 and 1997 (*in thousands*):

	1996	1997
Subordinated installment notes payable to former majority owners, interest at 8.75%, principal payments in varying amounts due annually beginning October 1991, with a balloon payment due at maturity in May 2005	\$10,448	\$ 9,574
Capital lease for building, interest at 17.5%	1,372	1,198
Capital leases for broadcasting tower facilities, interest rates averaging 10%	249	3,720
Capitalization of time brokerage agreements, interest at 6.73%	—	6,611
Capital leases for building and tower, interest at 8.25%	1,890	1,470
	13,959	22,573
Less: Current portion	(1,774)	(3,073)
	<u>\$12,185</u>	<u>\$19,500</u>

Notes and capital leases payable to affiliates, as of December 31, 1997, mature as follows (*in thousands*):

1998	\$ 4,694
1999	4,696
2000	4,615
2001	4,044
2002	2,854
2003 and thereafter	7,503
Total minimum payments due	28,406
Less: Amount representing interest	(5,833)
Present value of future notes and capital lease payments	<u>\$22,573</u>

6. PROGRAM CONTRACTS PAYABLE

Future payments required under program contracts payable as of December 31, 1997, are as follows (*in thousands*):

1998	\$ 66,404
1999	40,026
2000	20,375
2001	1,770
2002	208
2003 and thereafter	29
	128,812
Less: Current portion	(66,404)
Long-term portion of program contracts payable	<u>\$ 62,408</u>

Included in the current portion amounts are payments due in arrears of \$14.3 million. In addition, the Companies have entered into noncancelable commitments for future program rights aggregating \$56.9 million as of December 31, 1997.

The Company has estimated the fair value of its program contract payables and noncancelable commitments at approximately \$102.7 million and \$43.1 million, respectively, as of December 31, 1996, and \$118.9 million and \$46.7 million, respectively, at December 31, 1997, based on future cash flows discounted at the Company's current borrowing rate.

7. PREPAYMENT OF SYNDICATED PROGRAM CONTRACT LIABILITIES

In connection with the 1996 acquisitions (see Note 12), the Company assumed certain syndicated program contracts payable for which the underlying value of the associated syndicated program assets was determined, by management, to be of little or no value. The Company negotiated the prepayment of syndicated program contracts

payable for certain of the 1996 acquisitions, as well as certain other of the Company's subsidiaries. During the years ended December 31, 1996 and 1997, the Company made cash payments totaling \$15.1 million and \$1.4 million, respectively, relating to these negotiations. For subsidiaries owned prior to 1996, the Company recognized related amortization of excess syndicated programming of \$3.0 million for the year ended December 31, 1996.

8. RELATED PARTY TRANSACTIONS

In connection with the start-up of an affiliate in 1990, certain SBG Class B Stockholders issued a note allowing them to borrow up to \$3.0 million from the Company. This note was amended and restated June 1, 1994, to a term loan bearing interest of 6.88% with quarterly principal payments beginning March 31, 1996 through December 31, 1999. As of December 31, 1996 and 1997, the balance outstanding was approximately \$1.8 and \$1.3 million, respectively.

During the year ended December 31, 1993, the Company loaned Gerstell Development Limited Partnership (a partnership owned by Class B Stockholders) \$2.1 million. The note bears interest at 6.18%, with principal payments beginning on November 1, 1994, and a final maturity date of October 1, 2013. As of December 31, 1996 and 1997, the balance outstanding was approximately \$1.9 million.

Concurrently with the initial public offering (see Note 13), the Company acquired options from certain stockholders of Glencairn that will grant the Company the right to acquire, subject to applicable FCC rules and regulations, up to 97% of the capital stock of Glencairn. The Glencairn options were purchased by the Company for nominal consideration and will be exercisable only upon payment of an aggregate price equal to Glencairn's cost for the underlying stations, plus a 10% annual return. Glencairn is the owner-operator and FCC licensee of WNUV in Baltimore, WVTM in Milwaukee, WRDC in Raleigh/Durham, WABM in Birmingham, KRRT in Kerrville and WFBC in Asheville/Greenville/Spartanburg. The Company has entered into five-year LMA agreements (with five-year renewal options) with Glencairn pursuant to which the Company provides programming to Glencairn for airing on WNUV, WVTM, WRDC, WABM, KRRT and WFBC during the hours of 6:00 a.m. to 2:00 a.m. each day and has the right to sell advertising during this period. During the years ended December 31, 1995, 1996 and 1997, the Company made payments of \$5.6 million, \$7.3 million and \$8.4 million respectively, to Glencairn under these LMA agreements.

During the years ended December 31, 1995, 1996 and 1997, the Company from time to time entered into charter arrangements to lease airplanes owned by certain Class B Stockholders. During the years ended December 31, 1995, 1996 and 1997, the Company incurred expenses of approximately \$489,000, \$336,000 and \$736,000 related to these arrangements, respectively.

In May 1996, the Company acquired certain assets from River City, obtained options to acquire other assets from River City and entered into an LMA to provide programming services to certain television and radio stations, of which River City is the owner of the License Assets. Certain individuals who have direct or indirect beneficial owners of equity interests in River City are affiliates of the Company. During the years ended December 31, 1996 and 1997, the Company incurred LMA expenses relating to River City of \$1.4 million and \$896,000, respectively.

In September 1996, the Company entered into a five-year agreement with River City pursuant to which River City will provide to the Company certain production services. Pursuant to this agreement, River City will provide certain services to the Company in return for an annual fee of \$416,000, subject to certain adjustments on each anniversary date. During the years ended December 31, 1996 and 1997, the Company incurred expenses relating to this agreement of \$166,000 and \$397,000, respectively.

An individual who is an affiliate of the Company is the owner of 100% of the common stock of Keymarket of South Carolina, Inc. ("KSC"). The Company has exercised its option to acquire all of the assets of KSC for consideration of forgiveness of KSC debt in an aggregate principal amount of approximately \$7.4 million, plus a payment of approximately \$1.0 million, less certain adjustments. The Company will close this transaction upon FCC approval which is anticipated to occur during 1998. The Company also purchased two properties from this affiliate for an aggregate purchase price of approximately \$1.75 million as required by certain leases assigned to the Company in connection with the River City acquisition.

During May 1996, the Company, along with the Class B Stockholders, formed Beaver Dam Limited Partnership (BDLP), of which the Company owned a 45% interest. BDLP was formed for the purpose of constructing and

owning a building which may be the site for the Company's corporate headquarters. The Company made capital contributions of approximately \$380,000. During 1997, the Partnership made a liquidating distribution to the Company of approximately \$380,000 and the Company no longer owns an interest in BDLP.

Certain assets used by the Company's operating subsidiaries are leased from Cunningham, KIG and Gerstell (entities owned by the Class B Stockholders). Lease payments made to these entities were \$1.3 million, \$1.3 million, and \$1.4 million for the years ended December 31, 1995, 1996 and 1997, respectively.

9. INCOME TAXES

The Company files a consolidated federal income tax return and separate company state tax returns. The provision (benefit) for income taxes consists of the following as of December 31, 1995, 1996 and 1997 (*in thousands*):

	1995	1996	1997
Provision for income taxes before extraordinary item	\$ 5,200	\$6,936	\$ 15,984
Income tax effect of extraordinary item.....	(3,357)	—	(4,045)
	<u>\$ 1,843</u>	<u>\$6,936</u>	<u>\$ 11,939</u>
Current:			
Federal	\$ 5,374	\$ 127	\$(10,581)
State	1,558	4,479	1,938
	<u>6,932</u>	<u>4,606</u>	<u>(8,643)</u>
Deferred:			
Federal	(4,119)	2,065	18,177
State	(970)	265	2,405
	<u>(5,089)</u>	<u>2,330</u>	<u>20,582</u>
	<u>\$ 1,843</u>	<u>\$6,936</u>	<u>\$ 11,939</u>

The following is a reconciliation of federal income taxes at the applicable statutory rate to the recorded provision (benefit):

	1995	1996	1997
Statutory federal income taxes	34.0%	34.0%	34.0%
Adjustments—			
State income and franchise taxes, net of federal effect	2.8	16.7	6.3
Goodwill amortization	16.4	24.3	17.0
Non-deductible expense items	3.7	6.1	8.5
Tax liability related to dividends on Parent Preferred Stock (a).....	—	—	70.3
Other.....	(5.9)	4.9	3.0
Provision for income taxes	<u>51.0%</u>	<u>86.0%</u>	<u>139.1%</u>

(a) In March 1997, the Company issued the HYTOPS securities (see Note 17). In connection with this transaction, Sinclair Broadcast Group, Inc. (the "Parent") issued \$206.2 million of Series C Preferred Stock (the "Parent Preferred Stock") to KDSM, Inc., a wholly owned subsidiary. Parent Preferred Stock dividends paid to KDSM, Inc. are considered taxable income for Federal tax purposes and not considered income for book purposes. Also for Federal tax purposes, KDSM, Inc. is allowed a tax deduction for dividends received on the Parent Preferred Stock in an amount equal to Parent Preferred Stock dividends received in each taxable year limited to the extent that the Parent's consolidated group has "earnings and profits". To the extent that dividends received by KDSM, Inc. are in excess of the Parent's consolidated group earnings and profits, the Parent will reduce its tax basis in the Parent Preferred Stock which gives rise to a deferred tax liability (to be recognized upon redemption) and KDSM, Inc.'s dividend income is treated as a permanent difference between taxable income and book income. During the year ended December 31, 1997, the Parent did not generate earnings and profits which resulted in a reduction in basis of the Parent's Series C Preferred Stock of \$20.8 million which generated a related deferred tax liability of \$8.4 million.

Temporary differences between the financial reporting carrying amounts and the tax basis of assets and liabilities give rise to deferred taxes. The Company had a net deferred tax asset and deferred tax liability of \$782,000 and \$21.5 million as of December 31, 1996 and 1997, respectively. The realization of deferred tax assets is contingent upon the Company's ability to generate sufficient future taxable income to realize the future tax benefits associated with the net deferred tax asset. Management believes that deferred assets will be realized through future operating results.

The Company has total available Federal NOL's of approximately \$57.3 million as of December 31, 1997, which expire during various years from 2004 to 2012. These NOL's are recorded within refundable income taxes and deferred taxes in the accompanying Consolidated Balance Sheet as of December 31, 1997. Certain of these NOL's are limited to use within a specific entity, and certain NOL's are subject to annual limitations under Internal Revenue Code Section 382 and similar state provisions.

Total deferred tax assets and deferred tax liabilities as of December 31, 1996 and 1997, including the effects of businesses acquired, and the sources of the difference between financial accounting and tax bases of the Company's assets and liabilities which give rise to the deferred tax assets and deferred tax liabilities and the tax effects of each are as follows (*in thousands*):

	1996	1997
Deferred Tax Assets:		
Accruals and reserves	\$ 2,195	\$ 3,015
Loss on disposal of fixed assets	—	148
Net operating losses	4,829	10,435
Program contracts	2,734	3,410
Other	713	903
	<u>\$10,471</u>	<u>\$17,911</u>
Deferred Tax Liabilities:		
FCC license	\$ 2,613	\$ 5,346
Parent Preferred Stock deferred tax liability [see (a) above]	—	8,388
Hedging instruments	188	15
Fixed assets and intangibles	4,430	23,572
Capital lease accounting	1,304	1,647
Affiliation agreement	691	—
Investment in partnerships	209	420
Other	254	65
	<u>\$ 9,689</u>	<u>\$39,453</u>

During 1996, the Company made a \$1.1 million deferred tax adjustment to decrease its deferred tax asset and increase goodwill under the purchase accounting guidelines of APB 16 and in accordance with SFAS 109 related to the opening deferred tax asset balances of certain 1995 acquisitions.

10. EMPLOYEE BENEFIT PLAN

The Sinclair Broadcast Group, Inc. 401(k) Profit Sharing Plan and trust (the "SBG Plan") covers eligible employees of the Company. Contributions made to the SBG Plan include an employee elected salary reduction amount, company matching contributions and a discretionary amount determined each year by the Board of Directors. The Company's 401(k) expense for the years ended December 31, 1995, 1996 and 1997, was \$271,000, \$657,000 and \$1.0 million, respectively. There were no discretionary contributions during these periods. During December 1997, the Company registered 400,000 shares of its Class "A" Common Stock with the Securities and Exchange Commission (the "Commission") to be issued as a matching contribution for the 1997 plan year and subsequent plan years.

11. CONTINGENCIES AND OTHER COMMITMENTS

LITIGATION

Lawsuits and claims are filed against the Company from time to time in the ordinary course of business. These actions are in various preliminary stages, and no judgments or decisions have been rendered by hearing boards or courts. Management, after reviewing developments to date with legal counsel, is of the opinion that the outcome of such matters will not have a material adverse effect on the Company's financial position or results of operations.

OPERATING LEASES

The Company has entered into operating leases for certain property and equipment under terms ranging from three to ten years. The rent expense under these leases, as well as certain leases under month-to-month arrangements, for the years ended December 31, 1995, 1996 and 1997, aggregated approximately \$1.1 million, \$3.1 million and \$3.9 million, respectively.

Future minimum payments under the leases are as follows (*in thousands*):

1998	\$ 3,427
1999	2,226
2000	1,583
2001	1,382
2002	1,172
2003 and thereafter	4,988
	<u>\$14,778</u>

12. ACQUISITIONS

1995 ACQUISITIONS AND DISPOSITIONS

In January and May 1995, the Company acquired the non-license and license assets, respectively, of WTVZ in Norfolk, Virginia for a purchase price of \$49.0 million. The acquisition was accounted for under the purchase method of accounting whereby the purchase price was allocated to property and programming assets, acquired intangible broadcasting assets and other intangible assets for \$1.4 million, \$12.6 million and \$35.0 million, respectively, based upon an independent appraisal. Intangible assets are being amortized over 1 to 40 years.

In January 1995, the Company acquired the license and non-license assets of the Paramount Station Group of Raleigh/Durham, Inc. which owned and operated WLFL in Raleigh-Durham, North Carolina for \$55.5 million, plus the assumption of \$3.7 million in liabilities. The acquisition was accounted for under the purchase method of accounting whereby the purchase price was allocated to property and programming assets, acquired intangible broadcasting assets and other intangible assets for \$8.6 million, \$15.9 million and \$34.7 million, respectively, based upon an independent appraisal. Intangible assets are being amortized over periods of 1 to 40 years.

On March 31, 1995, the Company exercised its option to acquire 100% of the voting stock of FSFA for the exercise price of \$100. FSFA was merged into WLFL, Inc. and became a wholly-owned subsidiary of the Company. Simultaneously, the Company sold the license assets of FSFA to Glencairn for \$2.0 million, and entered into a five-year LMA (with a five-year renewal option) with Glencairn (see Note 8).

On May 5, 1995, Keyser Communications, Inc. (KCI), an affiliated entity wholly-owned by the stockholders of the Company, was merged into the Company for common stock. Certain assets and liabilities of KCI (other than programming items, an LMA agreement and consulting agreements), were distributed to the KCI shareholders immediately prior to the merger. The merger of KCI is being treated as a reorganization and has been accounted for as a pooling of interests transaction. Accordingly, the consolidated financial statements for all periods presented have been restated to include the accounts of KCI.

In July 1995, the Company acquired the non-license assets of WABM in Birmingham, Alabama for a purchase price of \$2.5 million. The acquisition was accounted for under the purchase method of accounting whereby \$1.1 million of the purchase price was allocated to property and program assets, based upon an independent appraisal. The excess of the purchase price over the acquired assets of approximately \$1.4 million was allocated to other intangible assets and is being amortized over 15 years. Simultaneously with the purchase, the Company entered into a five-year LMA agreement (with a five-year renewal option) with Glencairn.

In November 1995, the Company acquired the non-license assets of WDBB in Tuscaloosa, Alabama for a purchase price of \$400,000. In addition, the Company made "Option Grant Payments" of \$11.3 million to certain parties for options to purchase the issued and outstanding stock of WDBB, Inc., which holds the license assets of WDBB. The option agreement further provides for the payment of option grant installments of \$2.6 million over five years and a final option exercise price of \$100,000. The acquisition was accounted for under the purchase method of accounting whereby \$11.1 million was allocated to the property and program assets based upon an independent appraisal. The total of Option Grant Payments paid and grant installments accrued of \$14.0 million was allocated to other intangible assets and is being amortized over 15 years.

1996 ACQUISITIONS

River City Acquisition

In April 1996, the Company entered into an agreement to purchase certain non-license assets of River City. In May 1996, the Company closed the transaction for a purchase price of \$967.1 million, providing as consideration 1,150,000 shares of Series A Convertible Preferred Stock with a fair market value of \$125.1 million, 1,382,435 stock options with a fair market value of \$23.9 million and cash payments totaling \$818.1 million. The Company utilized indebtedness under its Bank Credit Agreement to finance the transaction. The acquisition was accounted for under the purchase method of accounting whereby the purchase price was allocated to property and programming assets, acquired intangible broadcasting assets and other intangible assets for \$82.8 million, \$375.6 million and \$508.7 million, respectively, based upon an independent appraisal. Intangible assets are being amortized over 1 to 40 years.

Simultaneously, the Company entered into option agreements to purchase certain license assets for an aggregate option exercise price of \$20 million. In September 1996, after receiving FCC approval for license transfer, the Company made a cash payment of \$6.9 million to acquire certain radio station FCC licenses. During 1997, the Company exercised its options to acquire certain other FCC licenses and now owns all of the License Assets (or has entered into an LMA with respect to) all of the television and radio stations with respect to which it acquired non-license assets from River City, other than WTTV-TV and WTTK-TV in Indianapolis, Indiana.

Also, simultaneously with the acquisition, the Company entered into an option agreement to purchase the license and non-license assets of WSYX-TV in Columbus, Ohio. The option purchase price for this television station is \$100 million plus the amount of River City indebtedness secured by the WSYX assets on the exercise date (not to exceed the amount at the date of closing of \$135 million). Pursuant to the WSYX option agreement, the Company is required to make certain "Option Extension Fees", as defined. These fees are required to begin quarterly beginning with December 31, 1996, through the earlier of the "Option Grant Date" or the expiration date of June 30, 1999. The Option Extension Fees are calculated as 8% per annum of the option purchase price through the first anniversary of the Option Grant Date, 15% per annum of the option purchase price through the second anniversary of the Option Grant Date and 25% per annum of the option purchase price through the expiration of the WSYX option agreement. As of December 31, 1997, the Company incurred Option Extension Fees and other costs relating to WSYX-TV totaling \$22.9 million.

In conjunction with the River City acquisition, the Company entered into an agreement to purchase the non-license assets of KRRT, Inc., a television station in San Antonio, Texas, for a purchase price of \$29.5 million. The acquisition was accounted for under the purchase method of accounting whereby the purchase price was allocated to property and programming assets, acquired intangible broadcasting assets and other intangible assets for \$3.8 million, \$0.4 million and \$25.3 million, respectively, based upon an independent appraisal. Intangible assets are being amortized over 1 to 15 years.

In connection with the River City acquisition, the Company consummated the following transactions concurrent with or subsequent to the closing:

1. In June 1996, the Board of Directors of the Company adopted, upon approval of the stockholders by proxy, an amendment to the Company's amended and restated charter. This amendment increased the number of Class A Common Stock shares authorized to be issued by the Company from 35,000,000 shares to 100,000,000 shares. The amendment also increased the number of shares of preferred stock authorized from 5,000,000 shares to 10,000,000 shares.

2. **Series A Preferred Stock**—As partial consideration for the acquisition of the non-license assets of River City, the Company issued 1,150,000 shares of Series A Preferred Stock. In June 1996, the Board of Directors of the Company adopted, upon approval of the stockholders by proxy, an amendment to the Company's amended and restated charter at which time Series A Preferred Stock was exchanged for and converted into Series B Preferred Stock. The Company recorded the issuance of Series A Preferred Stock based on the fair market value at the date the River City acquisition was announced at the exchange rate of 3.64 shares of Class A Common Stock for each share of Series A Preferred Stock.
3. **Series B Preferred Stock**—Shares of Series B Preferred Stock are convertible at any time into shares of Class A Common Stock, with each share of Series B Preferred Stock convertible into approximately 3.64 shares of Series A Common Stock. The Company may redeem shares of Series B Preferred Stock only after the occurrence of certain events. If the Company seeks to redeem shares of Series B Preferred Stock and the stockholder elects to retain the shares, the shares will automatically be converted into common stock on the proposed redemption date. All shares of Series B Preferred Stock remaining outstanding as of May 31, 2001, will automatically convert into Class A Common Stock. Series B Preferred Stock is entitled to 3.64 votes on all matters with respect to which Class A Common Stock has a vote.

4. Stock Options and Awards:

Long-Term Incentive Plan—

In June 1996, the Board of Directors adopted, upon approval of the stockholders by proxy, the 1996 Long-Term Incentive Plan of the Company (the "LTIP"). The purpose of the LTIP is to reward key individuals for making major contributions to the success of the Company and its subsidiaries and to attract and retain the services of qualified and capable employees. A total of 2,073,673 shares of Class A Common Stock is reserved and available for awards under the plan. In connection with the River City acquisition, 244,500 options were granted to certain employees and 1,382,454 were granted to Barry Baker (see Executive Employment Agreement below) under this plan with an exercise price of \$30.11 per share.

The Company recorded deferred compensation of \$1.9 million as additional paid-in capital at the stock option grant date. During the years ended December 31, 1996 and 1997, compensation expense of \$739,000 and \$605,000 was recorded relating to the options issued under the LTIP, respectively. The remaining deferred compensation of approximately \$954,000 will be recognized as expense on a straight-line basis over the vesting period.

Incentive Stock Option Plan—

In June 1996, the Board of Directors adopted, upon approval of the stockholders by proxy, certain amendment to the Company's Incentive Stock Option Plan. The purpose of the amendments was (i) to increase the number of shares of Class A Common Stock approved for issuance under the plan from 400,000 to 500,000, (ii) to delegate to Barry Baker the authority to grant certain options, (iii) to lengthen the period after date of grant before options become exercisable from two years to three and (iv) to provide immediate termination and three-year ratable vesting of options in certain circumstances. In connection with the River City acquisition, the Company granted 287,000 options to key management employees at an exercise price of \$37.75, the fair market value at the date of grant.

5. Executive Employment Agreement

In connection with the acquisition of River City, the Company entered into a five-year employment agreement (the "Baker Employment Agreement") with Barry Baker, pursuant to which Mr. Baker will become President and Chief Executive Officer of SCI and Executive Vice President of the Company, at such time as Mr. Baker is able to hold those positions consistent with applicable FCC regulations. Until such time as Mr. Baker is able to become an officer of the Company, he serves as a consultant to the Company pursuant to a consulting agreement and received compensation that he would be entitled to as an officer under the Baker Employment Agreement. If the Baker Employment Agreement is terminated by the Company other than for cause (as defined) or by Mr. Baker for good cause (constituting certain occurrences specified in the agreement), Mr. Baker shall be entitled to certain termination payments entitling him to his salary and bonuses which would have been paid under the agreement; to purchase certain television or radio assets acquired by the Company from River City at fair market value, and all stock options held by Mr. Baker shall vest immediately.

Other 1996 Acquisitions

In May 1995, the Company entered into option agreements to acquire all of the license and non-license assets of WSMH-TV in Flint, Michigan (WSMH). In July 1995, the Company paid the \$1.0 million option exercise price to exercise its option and in February 1996, the Company consummated the acquisition for a purchase price of \$35.4 million. The acquisition was accounted for under the purchase method of accounting whereby the purchase price was allocated to property and programming assets, acquired intangible broadcasting assets and other intangible assets for \$1.9 million, \$6.0 million and \$27.5 million, respectively, based upon an independent appraisal.

In March 1996, the Company entered into an agreement to acquire the outstanding stock of Superior Communications, Inc. (Superior) which owns the license and non-license assets of the television stations KOCB in Oklahoma City, Oklahoma and WDKY in Lexington, Kentucky. In May 1996, the Company consummated the acquisition for a purchase price of \$63.5 million. The acquisition was accounted for under the purchase method of accounting whereby the purchase price was allocated to property and programming assets, acquired intangible broadcasting assets and other intangible assets for \$7.3 million, \$20.4 million and \$35.8 million, respectively, based upon an independent appraisal.

In January 1996, the Company entered into an agreement to acquire license and non-license assets of the television station WYZZ in Peoria, Illinois. In July 1996, the Company consummated the acquisition for a purchase price of \$21.1 million. The acquisition was accounted for under the purchase method of accounting whereby the purchase price was allocated to property and programming assets, acquired intangible broadcasting assets and other intangible assets for \$2.2 million, \$4.3 million and \$14.6 million, respectively, based upon an independent appraisal.

In July 1996, the Company entered into an agreement to acquire license and non-license assets of the television station KSMO in Kansas City, Missouri through the exercise of its options described in Note 13 for a total purchase price of \$10.0 million. The acquisition was accounted for under the purchase method of accounting whereby the purchase price was allocated to property and programming assets and acquired intangible broadcasting assets for \$4.6 million and \$5.4 million, respectively, based upon an independent appraisal.

In August 1996, the Company acquired the license and non-license assets of the television stationWSTR in Cincinnati, Ohio for a total purchase price of \$8.7 million. The acquisition was accounted for under the purchase method of accounting whereby the purchase price was allocated to property and programming assets and acquired intangible broadcasting assets for \$6.2 million and \$2.5 million, respectively, based upon an independent appraisal.

1997 ACQUISITIONS AND AGREEMENTS TO ACQUIRE CERTAIN ASSETS:

1997 Acquisitions

In January 1997, the Company entered into a purchase agreement to acquire the license and non-license assets of KUPN-TV, the UPN affiliate in Las Vegas, Nevada, for a purchase price of \$87.5 million. Under the terms of this agreement, the Company made cash deposit payments of \$9.0 million and in May 1997, the Company closed on the acquisition making cash payments of \$78.5 million for the remaining balance of the purchase price and other related closing costs. The acquisition was accounted for under the purchase method of accounting whereby the purchase price was allocated to property and programming assets, acquired intangible broadcasting assets and other intangible assets for \$1.6 million, \$17.9 million and \$68.0 million, respectively, based upon an independent appraisal. The Company financed the transaction by utilizing proceeds from the HYTOPS offering (see Note 17) combined with indebtedness under the 1997 Bank Credit Agreement.

In 1997, the Company exercised options to acquire the license and non-license assets of the following radio stations: WGR-AM and WWWS-AM (Buffalo, New York) and WWFH-FM, WILP-AM, WWSH-FM and WKRF-FM (Wilkes-Barre/Scranton, Pennsylvania). During the year ended December 31, 1997, the Company made payments totaling approximately \$3.1 million to acquire the license and non-license assets of these radio stations.

Exercise of Options to Acquire River City License Assets

Since March 31, 1997, the FCC has granted approval for transfer of FCC licenses with respect to the following television stations: KDNL-TV (St. Louis, Missouri), KOVR-TV (Sacramento, California), WLOS-TV (Asheville, North Carolina), KABB-TV (San Antonio, Texas) and KD SM-TV (Des Moines, Iowa). The Company exercised options to acquire the License Assets (the television and radio assets essential for broadcasting a television or

radio signal in compliance with regulatory guidelines) of each of these stations from River City Broadcasting, L.P. (“River City”) for aggregate option exercise payments of \$9.3 million. In July 1997, the Company made an option exercise payment of \$0.5 million to River City related to the license assets of WFBC-TV (Greenville, South Carolina) and simultaneously assigned its option to acquire the License Assets of WFBC-TV to Glencairn, Ltd. (“Glencairn”) for an option assignment fee of \$2.0 million. The Company entered into a local marketing agreement (“LMA”) with Glencairn whereby the Company, in exchange for an hourly fee, obtained the right to program and sell advertising on substantially all of the station’s inventory of broadcast time. The Company also received FCC approval for the transfer of the FCC licenses of KPNT-FM and WVRV-FM in St. Louis, Missouri, and exercised its option to acquire the License Assets of these radio stations for an option exercise price of \$1.2 million. As a result of these license approvals and option exercises, the Company now owns the License Assets of (or has entered into an LMA with Glencairn with respect to) all of the television and radio stations with respect to which it acquired Non-License Assets (assets involved in the operation of radio and television stations other than License Assets) from River City, other than WTTV-TV and WTTK-TV in Indianapolis, Indiana.

Agreement to Acquire Heritage

On July 16, 1997, the Company entered into agreements (the “Heritage Acquisition Agreements”) with The News Corporation Limited, Heritage Media Group, Inc. and certain subsidiaries of Heritage Media Corporation (collectively, “Heritage”), pursuant to which the Company agreed to acquire certain television and radio station assets. Under the Heritage Acquisition Agreements, the Company will acquire the assets of, or the right to program pursuant to LMAs, six television stations in three markets and the assets of 24 radio stations in seven markets (the “Heritage Acquisition”). The aggregate purchase price for the assets is \$630 million payable in cash at closing, less deposits paid of \$65.5 million. During the first quarter of 1998, the Company completed the acquisition of the Heritage television and radio stations except for the radio stations in the New Orleans, Louisiana market (see Note 24).

Agreement to Acquire Lakeland Group

In November 1997, the Company entered into an agreement to acquire 100% of the stock of Lakeland Group Television Inc. for a purchase price of \$50 million (“the Lakeland Acquisition”) and made a cash deposit of \$1.5 million. Upon the closing of the Lakeland Acquisition, the Company will acquire television station KLGT in Minneapolis, Minnesota. The Lakeland Acquisition is expected to close in the second quarter of 1998.

Agreement to Acquire Max Media

On December 2, 1997, the Company entered into agreements to acquire, directly or indirectly, all of the equity interests of Max Media Properties, L.L.C. (“Max Media”). As a result of this transaction, the Company will acquire, or acquire the right to program pursuant to LMAs, nine television stations and eight radio stations in eight markets (the “Max Media Acquisition”). The aggregate purchase price is \$255 million payable in cash at closing (less a deposit of \$12.8 million paid at the time of signing the acquisition agreement), a portion of which will be used to retire existing debt of Max Media at closing. Max Media’s television station WKEF-TV in Dayton, Ohio has an overlapping service area with the Company’s television stations WTTE-TV in Columbus, Ohio and WSTR-TV in Cincinnati, Ohio and with Company’s LMA station WTTV-TV in Indianapolis, Indiana. In addition, Max Media’s television station WEMT-TV in Tri-Cities, Tennessee/Virginia has an overlapping service area with the Company’s television station WLOS-TV in Asheville, North Carolina and Max Media’s television station KBSI-TV in Paducah, Kentucky/Cape Girardeau, Missouri has an overlapping service area with the Company’s television station KDNL-TV in St. Louis, Missouri. Furthermore, the Company owns a television station (and proposes to acquire a radio station from Heritage) in the Norfolk-Virginia Beach-Newport News, Virginia market, where four of Max Media’s radio stations are located. Consequently, the Company has requested waivers from the FCC to allow the Company to complete the Max Media Acquisition. There can be no assurance that such waivers will be granted. As a result of the Max Media Acquisition and the Heritage Acquisition, the Company intends to dispose of two of the FM radio stations in the Norfolk-Virginia Beach-Newport News, Virginia radio market that it has agreed to acquire from Heritage and Max Media in order to be in compliance with the FCC regulations that limit the number of radio stations that can be owned in a market. The Max Media Acquisition is subject to FCC and Department of Justice (DOJ) approval and certain other conditions, and is anticipated to be completed in the second quarter of 1998. The transaction is expected to be financed through borrowings under the Company’s Bank Credit Agreement.

13. INITIAL PUBLIC OFFERING

In June 1995, the Company consummated an initial public offering of 5,750,000 shares of Class A Common Stock at an initial public offering price of \$21.00 per share realizing net proceeds of approximately \$111.5 million. The net proceeds to the Company from this offering were used to reduce long-term indebtedness.

The Company consummated the following transactions concurrent with or prior to the offering:

1. The Company purchased the options to acquire the partnership interests and liabilities of KSMO in Kansas City, Missouri and WSTR in Cincinnati, Ohio ("Option Stations") from the stockholders for an aggregate purchase price was \$9.0 million. The stockholders also assigned to the Company their rights and obligations under an option agreement among the stockholders and a commercial bank which held secured debt of KSMO and WSTR.
2. The stockholders assigned the subordinated convertible debenture relating to the sale of WPTT to the Company in exchange for \$1.0 million, a portion of which was used to retire the outstanding balance of a note due from the controlling stockholders.
3. The Company acquired options from certain stockholders of Glencairn that will grant the Company the right to acquire, subject to applicable FCC rules and regulations, up to 97% of the capital stock of Glencairn.
4. The Board of Directors of the Company adopted Amended and Restated Articles of Incorporation to authorize up to 35,000,000 shares of Class A Common Stock, par value \$.01 per share, 35,000,000 shares of Class B Common Stock, par value \$.01 per share and 5,000,000 shares of Preferred Stock, par value \$.01 per share; completed a reclassification and conversion of its outstanding common stock into shares of Class B Common Stock; and effected an approximately 49.1 for 1 stock split of the Company's common stock (resulting in 29,000,000 shares of Class B Common Stock outstanding). The reclassification, conversion and stock split have been retroactively reflected in the accompanying consolidated balance sheets and statements of stockholders' equity. In June 1996, the Company amended its charter, increasing the number of shares of Class A Common Stock authorized to be issued from 35,000,000 to 100,000,000 (see Note 12).
5. The Board of Directors of the Company adopted an Incentive Stock Option Plan for Designated Participants (the Designated Participants Stock Option Plan) pursuant to which options for shares of Class A Common Stock will be granted to certain designated employees of the Company upon adoption.
6. On March 27, 1995, the Board of Directors of the Company adopted an Incentive Stock Option Plan (the Stock Option Plan) pursuant to which options for shares of Class A Common Stock may be granted to certain designated classes of employees of the Company. The Stock Option Plan provides that the maximum number of shares of Class A Common Stock reserved for issuance under the Stock Option Plan is 500,000, as amended, and that options to purchase Class A Common Stock may be granted under the plan until the tenth anniversary of its adoption.

14. SHELF REGISTRATION STATEMENTS

In September 1996, the Company filed and in November 1996 obtained effectiveness of a registration statement on Form S-3 with the Commission with respect to the sale by certain selling stockholders of 5,564,253 shares of Class A Common Stock. These shares represent 4,181,818 shares of Class A Common Stock issuable upon conversion of Series B Preferred Stock and 1,382,435 shares of Class A Common Stock issuable upon exercise of options held by Barry Baker.

In October 1996, the Company filed a registration statement on Form S-3 with the Commission for the purpose of offering additional shares of its Class A Common Stock to the public. In August 1997, the Company amended this registration statement to reflect the registration of \$1 billion of securities to be offered to the public, covering Class A Common Stock, Preferred Stock and debt securities (the "Shelf Registration"). In September 1997, the Company completed offerings of its Class A Common Stock and Series D Preferred Stock pursuant to the Shelf Registration. In December 1997, the Company issued the 8¼% Notes pursuant to the Shelf Registration.

15. SECONDARY PUBLIC OFFERING OF CLASS A COMMON STOCK

In September 1997, the Company and certain stockholders of the Company completed a public offering of 4,345,000 and 1,750,000 shares, respectively of Class A Common Stock (the “Common Stock Offering”). The shares were sold pursuant to the Shelf Registration for an offering price of \$36.50 per share and generated proceeds to the Company of \$151.0 million, net of underwriters’ discount and other offering costs of \$7.6 million. The Company utilized a significant portion of the Common Stock Offering proceeds to repay indebtedness under the 1997 Bank Credit Agreement (see Note 4).

16. PUBLIC OFFERING OF SERIES D PREFERRED STOCK

Concurrent with the Common Stock Offering, the Company completed a public offering of 3,450,000 shares of Series D Convertible Exchangeable Preferred Stock (the “Preferred Stock Offering”). The shares were sold pursuant to the Shelf Registration at an offering price of \$50 per share and generated proceeds to the Company of \$166.9 million, net of underwriters’ discount and other offering costs of \$5.0 million.

The Convertible Exchangeable Preferred Stock have a liquidation preference of \$50 per share and a stated annual dividend of \$3.00 per share payable quarterly out of legally available funds and are convertible into shares of Class A Common Stock at the option of the holders thereof at a conversion price of \$45.625 per share, subject to adjustment. The shares of Convertible Exchangeable Preferred Stock are exchangeable at the option of the Company, for 6% Convertible Subordinated Debentures of the Company, due 2012, and are redeemable at the option of the Company on or after September 20, 2000 at specified prices plus accrued dividends.

The Company received total net proceeds of \$317.9 million from the Preferred Stock Offering and the Common Stock Offering. The Company utilized \$285.7 million of the net proceeds from the Common Stock Offering and the Preferred Stock Offering to repay outstanding borrowings under the revolving credit facility, \$8.9 million to repay outstanding amounts under the Tranche A term loan of the 1997 Bank Credit Agreement and retained the remaining net proceeds of approximately \$23.3 million for general corporate purposes.

17. COMPANY OBLIGATED MANDATORILY REDEEMABLE PREFERRED SECURITIES OF SUBSIDIARY TRUST

In March 1997, the Company completed a private placement of \$200 million aggregate liquidation value of 11½% High Yield Trust Offered Preferred Securities (the “HYTOPS”) of Sinclair Capital, a subsidiary trust of the Company. The HYTOPS were issued March 12, 1997, mature March 15, 2009, and provide for quarterly distributions to be paid in arrears beginning June 15, 1997. The HYTOPS were sold to “qualified institutional buyers” (as defined in Rule 144A under the Securities Act of 1933, as amended) and a limited number of institutional “accredited investors” and the offering was exempt from registration under the Securities Act of 1933, as amended (“the Securities Act”), pursuant to Section 4(2) of the Securities Act and Rule 144A thereunder. The Company utilized \$135 million of the approximately \$192.8 million net proceeds of the private placement to repay outstanding debt and retained the remainder for general corporate purposes, which included the acquisition of KUPN-TV in Las Vegas, Nevada.

Pursuant to a Registration Rights Agreement entered into in connection with the private placement of the HYTOPS, the Company offered holders of the HYTOPS the right to exchange the HYTOPS for new HYTOPS having the same terms as the existing securities, except that the exchange of the new HYTOPS for the existing HYTOPS has been registered under the Securities Act. On May 2, 1997, the Company filed a registration statement on Form S-4 with the Commission for the purpose of registering the new HYTOPS to be offered in exchange for the aforementioned existing HYTOPS issued by the Company in March 1997 (the “Exchange Offer”). The Company’s Exchange Offer was closed and became effective August 11, 1997, at which time all of the existing HYTOPS were exchanged for new HYTOPS.

Amounts payable to the holders of HYTOPS are recorded as “Subsidiary trust minority interest expense” in the accompanying financial statements and were \$18.6 million for the year ended December 31, 1997.

18. STOCK-BASED COMPENSATION PLANS

As permitted under SFAS 123, "Accounting for Stock-Based Compensation", the Company measures compensation expense for its stock-based employee compensation plans using the intrinsic value method prescribed by Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees", and provides pro forma disclosures of net income and earnings per share as if the fair value-based method prescribed by SFAS 123 had been applied in measuring compensation expense.

A summary of changes in outstanding stock options follows:

	Options	Weighted- Average Exercise Price	Exercisable	Weighted- Average Exercise Price
Outstanding at end of 1994	—	\$ —	—	\$ —
1995 Activity:				
Granted	68,000	21.00	—	—
Outstanding at end of 1995	68,000	21.00	—	—
1996 Activity:				
Granted	1,904,785	31.50	—	—
Exercised	—	—	—	—
Forfeited	3,750	21.00	—	—
Outstanding at end of 1996	1,969,035	31.16	736,218	30.11
1997 Activity:				
Granted	274,450	33.74	—	—
Exercised	5,000	21.00	—	—
Forfeited	126,200	35.69	—	—
Outstanding at end of 1997	2,112,285	\$34.19	1,214,076	\$29.82

Additional information regarding stock options outstanding at December 31, 1997, follows:

Outstanding	Exercise Price	Weighted- Average Remaining Vesting Period (In Years)	Weighted- Average Remaining Contractual Life (In Years)	Exercisable	Weighted- Average Exercise Price
54,250	\$ 21.00	0.13	7.44	38,250	\$21.00
1,708,935	30.11	0.67	8.49	1,175,826	30.11
326,100	37.75	1.76	8.76	—	—
23,000	41.875	2.97	9.97	—	—
2,112,285	\$ 34.19	0.85	8.52	1,214,076	\$29.82

Had compensation cost for the Company's 1995, 1996, and 1997 grants for stock-based compensation plans been determined consistent with SFAS 123, the Company's net income, net income applicable to common share before

extraordinary items, and net income per common share for these years would approximate the pro forma amounts below (*in thousands except per share data*):

	1995		1996		1997	
	As Reported	Pro Forma	As Reported	Pro Forma	As Reported	Pro Forma
Net income (loss) before extraordinary item.....	\$4,988	\$4,799	\$1,131	\$(1,639)	\$ (4,496)	\$ (5,871)
Net income (loss)	\$ 76	\$ (113)	\$1,131	\$(1,639)	\$(10,566)	\$(11,941)
Net income (loss) available to common shareholders	\$ 76	\$ (113)	\$1,131	\$(1,639)	\$(13,329)	\$(14,704)
Basic net income per share before extraordinary items	\$.15	\$.15	\$.03	\$ (.05)	\$ (.20)	\$ (.24)
Basic net income per share after extraordinary items	\$ —	\$ —	\$.03	\$ (.05)	\$ (.37)	\$ (.41)
Diluted net income per share before extraordinary items	\$.15	\$.15	\$.03	\$ (.05)	\$ (.20)	\$ (.24)
Diluted net income per share after extraordinary items	\$ —	\$ —	\$.03	\$ (.05)	\$ (.37)	\$ (.41)

The Company has computed for pro forma disclosure purposes the value of all options granted during 1995, 1996, and 1997 using the Black-Scholes option pricing model as prescribed by SFAS No. 123 and the following weighted average assumptions:

	Years Ended December 31,		
	1995	1996	1997
Risk-free interest rate	5.78%	6.66%	5.66–6.35%
Expected lives	5 years	5 years	5 years
Expected volatility	35%	35%	35%

Adjustments are made for options forfeited prior to vesting.

19. EQUITY PUT AND CALL OPTIONS

During December 1996, the Company entered into physically settled in cash put and call option contracts related to the Company's common stock. These option contracts were entered into for the purpose of hedging the dilution of the Company's common stock upon the exercise of stock options granted. The Company entered into 250,000 call options for common stock and 320,600 put options for common stock, with a strike price of \$37.75 and \$27.88 per common share, respectively. To the extent that the Company entered into put option contracts, the additional paid-in capital amounts were adjusted accordingly and reflected as Equity Put Options in the accompanying balance sheet as of December 31, 1996. In March 1997, the Company amended its put option contracts from physically settled in cash to physically or net physically settled in shares, at the election of the Company, and reclassified amounts reflected as Equity Put Options to "Additional paid-in capital—equity put options" as reflected in the accompanying balance sheet as of December 31, 1997.

In April 1997, the Company entered into put and call option contracts related to its common stock for the purpose of hedging the dilution of the common stock upon the exercise of stock options granted. The Company entered into 550,000 European style (that is, exercisable on the expiration date only) put options for common stock with a strike price of \$25.78 per share which provide for settlement in cash or in shares, at the election of the Company. The Company entered into 550,000 American style (that is, exercisable any time on or before the expiration date) call options for common stock with a strike price of \$25.78 per share which provide for settlement in cash or in shares, at the election of the Company. The option premium amount of \$3.4 million for these contracts, which was recorded as a reduction of additional paid-in capital, is payable in quarterly installments at 8.1% interest per annum through the maturity date, July 13, 2000.

20. EARNINGS PER SHARE

The Company adopted SFAS 128 “Earnings per Share” which requires the restatement of prior periods and disclosure of basic and diluted earnings per share and related computations.

	The Years Ended		
	1995	1996	1997
Weighted-average number of common shares	32,198	34,748	35,951
Dilutive effect of outstanding stock options.....	7	170	119
Dilutive effect of conversion of preferred shares	—	2,463	4,008
Weighted-average number of common equivalent shares outstanding.....	32,205	37,381	40,078
Net income (loss) before extraordinary item.....	\$ 4,988	\$ 1,131	\$ (4,496)
Net income (loss)	\$ 76	\$ 1,131	\$ (10,566)
Preferred stock dividends payable	—	—	(2,763)
Net income (loss) available to common shareholders	\$ 76	\$ 1,131	\$ (13,329)
Basic net income (loss) per share before extraordinary items	\$.15	\$.03	\$ (.20)
Basic net income (loss) per share after extraordinary items	\$ —	\$.03	\$ (.37)
Diluted net income (loss) per share before extraordinary items	\$.15	\$.03	\$ (.20)
Diluted net income (loss) per share after extraordinary items.....	\$ —	\$.03	\$ (.37)

21. FINANCIAL INFORMATION BY SEGMENT

In June 1997, the Financial Accounting Standards Board (FASB) released Statement of Financial Accounting Standards (SFAS) 131 “Disclosures about Segments of an Enterprise and Related Information”. SFAS 131 establishes standards for reporting information about operating segments in annual financial statements and requires selected information about operating segments in interim financial statements. SFAS 131 supercedes SFAS 14, “Financial Reporting for Segments of a Business Enterprise” and is effective for financial statements for periods beginning after December 15, 1997.

As of December 31, 1997, the Company consisted of two principal business segments—television broadcasting and radio broadcasting. Prior to the acquisition of River City Broadcasting, L.P. in May 1996, the Company did not own, operate or program radio stations. As of December 31, 1997 the Company owns or provides programming services pursuant to LMAs to 29 television stations located in 21 geographically diverse markets in the continental United States. The Company owns 30 radio stations in seven geographically diverse markets. Substantially all revenues represent income from unaffiliated companies.

	Television Years Ended December 31,	
	1996	1997
Total revenue	\$ 338,467	\$ 449,878
Station operating expenses	142,231	192,049
Depreciation, program amortization and stock-based compensation	56,420	80,799
Amortization of intangibles and other assets	55,063	57,897
Amortization of excess syndicated programming	3,043	—
Station broadcast operating income	\$ 81,710	\$ 119,133
Total assets.....	\$1,400,521	\$1,736,149
Capital expenditures	\$ 12,335	\$ 16,613

	Radio Years Ended December 31,	
	1996	1997
Total revenue.....	\$ 40,021	\$ 66,557
Station operating expenses	25,534	44,327
Depreciation, program amortization and stock-based compensation	3,827	5,167
Amortization of intangibles and other assets.....	3,467	9,943
Amortization of excess syndicated programming	—	—
Station broadcast operating income	\$ 7,193	\$ 7,120
Total assets.....	\$306,776	\$298,085
Capital expenditures.....	\$ 274	\$ 2,812

22. UNAUDITED PRO FORMA SUMMARY RESULTS OF OPERATIONS

The unaudited pro forma summary consolidated results of operations for the years ended December 31, 1996 and 1997, assuming the 1996 and 1997 acquisitions had been consummated on January 1, 1996, are as follows (in thousands, except per share data):

	(Unaudited) 1996	(Unaudited) 1997
Revenue, net	\$489,270	\$520,359
Net loss before extraordinary item	\$ (12,750)	\$ (3,643)
Net Loss.....	\$ (12,750)	\$ (9,713)
Net loss available to common shareholders	\$ (12,750)	\$ (12,476)
Basic and diluted earnings per share before extraordinary item.....	\$ (0.37)	\$ (0.18)
Basic and diluted earnings per share	\$ (0.37)	\$ (0.35)

23. GUARANTOR AND NON-GUARANTOR SUBSIDIARIES

Prior to the HYTOPS issuance in March 1997, the 1993 Notes and the 10% Notes were guaranteed by all of the Company's subsidiaries other than Cresap Enterprises, Inc. (the Company believes that Cresap Enterprises, Inc. is inconsequential to its operations). In conjunction with the HYTOPS issuance, KDSM, Inc., KDSM Licensee, Inc. and Sinclair Capital (the "Non-Guarantor Subsidiaries") are no longer guarantors of indebtedness under the 1993 Notes or the 10% Notes. Furthermore, the Non-Guarantor Subsidiaries are not guarantors under the Company's 1997 Bank Credit Agreement or the indentures relating to the 9% Notes or the 8¾% Notes issued in July 1997 and December 1997, respectively. The following supplemental financial information sets forth on a condensed basis the balance sheet and statement of operations as of and for the year ended December 31, 1997 for Sinclair Broadcast Group, Inc. (without its subsidiaries, the "Parent"), the Non-Guarantor Subsidiaries, and the subsidiaries (the "Guarantor Subsidiaries") that continue to guarantee indebtedness under the 1997 Bank Credit Agreement, the 1993 Notes, the 10% Notes, the 9% Notes and the 8¾% Notes. Certain reclassifications have been made to provide for uniform disclosure of all periods presented. The Company believes that these reclassifications are not material.

Balance Sheet information as of December 31, 1997:

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Elimination Entries	Total
Cash and cash equivalents	\$ 137,683	\$ 1,633	\$ 11	\$ —	\$ 139,327
Accounts receivable, net	6,127	125,322	2,150	—	133,599
Other current assets	1,826	53,794	2,206	—	57,826
Total current assets	145,636	180,749	4,367	—	330,752
Other long-term assets and acquired intangible broadcasting assets, net	1,390,698	1,259,250	254,173	(1,200,639)	1,703,482
Total assets	\$1,536,334	\$1,439,999	\$258,540	\$(1,200,639)	\$2,034,234
Accounts payable and accrued expenses	\$ 27,507	\$ 17,806	\$ 426	\$ —	\$ 45,739
Notes payable and commercial bank financing	35,207	8	—	—	35,215
Other current liabilities	1,595	1,021,272	2,790	(951,907)	73,750
Total current liabilities	64,309	1,039,086	3,216	(951,907)	154,704
Notes payable and commercial bank financing	1,022,841	93	—	—	1,022,934
Other long-term liabilities	9,916	98,120	1,575	—	109,611
Total liabilities	1,097,066	1,137,299	4,791	(951,907)	1,287,249
Minority interest in consolidated subsidiaries	—	3,697	—	—	3,697
Company Obligated Mandatorily Redeemable Security of Subsidiary Trust Holding Solely KDSM Senior Debentures...	—	—	200,000	—	200,000
Stockholders' equity	439,268	299,003	53,749	(248,732)	543,288
Total liabilities and stockholders' equity	\$1,536,334	\$1,439,999	\$258,540	\$(1,200,639)	\$2,034,234

Statement of operations information for the year ended December 31, 1997:

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Elimination Entries	Total
Total revenue	\$ —	\$507,897	\$ 8,538	\$ —	\$ 516,435
Program and production including barter expenses	—	128,810	1,482	—	130,292
Selling, general and administrative	7,501	96,124	2,459	—	106,084
Amortization of program contract costs and net realizable value adjustments	—	64,711	1,579	—	66,290
Amortization of acquired intangible broadcasting assets, non-compete and consulting agreements and other assets	4,916	61,336	1,588	—	67,840
Other depreciation and amortization	713	18,586	377	—	19,676
Broadcast operating income	(13,130)	138,330	1,053	—	126,253
Interest and amortization of debt discount expense	(97,625)	(98,392)	(18,600)	97,624	(116,993)
Interest and other income (expense)	96,297	(17,271)	20,826	(97,624)	2,228
Income (loss) before provision (benefit) for income taxes and extraordinary item	(14,458)	22,667	3,279	—	11,488
Provision (benefit) for income taxes	14,740	(140)	1,384	—	15,984
Net income before extraordinary item	(29,198)	22,807	1,895	—	(4,496)
Extraordinary item net of income tax benefit	(5,239)	(831)	—	—	(6,070)
Net income (loss)	\$(34,437)	\$ 21,976	\$ 1,895	\$ —	\$ (10,566)

24. SUBSEQUENT EVENTS

Heritage Acquisition. As of the date hereof and pursuant to the Heritage Acquisition, (dispositions described below) the Company has acquired or is providing programming services to three television stations in two separate markets and 13 radio stations in four separate markets. The Company has made cash payments totaling \$544 million in connection with the closing of these stations during the first quarter of 1998. The Company also has the right to acquire three radio stations in the New Orleans, Louisiana market. Acquisition of the Heritage radio stations in the New Orleans market is subject to approval by the FCC and termination of the applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the “HSR Act”). The Company has reached an agreement to divest certain radio stations it owns or has the right to acquire in the New Orleans market and expects to receive FCC approval and clearance under the HSR Act.

The Company has entered into agreements to sell to STC Broadcasting of Vermont, Inc. (“STC”) two television stations and the Non-License Assets and rights to program a third television station, all of which were acquired in the Heritage Acquisition. The three television stations are in the Burlington, Vermont and Plattsburgh, New York market and will be sold for aggregate consideration of approximately \$72 million. The Company expects to close the sale to STC during the second quarter of 1998 subject to, among other conditions, approval by the FCC and termination of the applicable waiting period under the HSR Act.

The Company has also agreed to sell to Entertainment Communications, Inc. (“Entercom”) seven radio stations it acquired in the Heritage Acquisition. The seven stations are located in the Portland, Oregon and Rochester, New York markets and will be sold for aggregate consideration of approximately \$126.5 million. Subject to approval by the FCC and termination of the applicable waiting period under the HSR Act, the Company anticipates it will close on the sale of the Portland and Rochester radio stations to Entercom during the second quarter of 1998. Entercom is operating these stations pursuant to an LMA pending closing of the sale.

Montecito Acquisition. In February 1998, the Company entered into an agreement to acquire all of the capital stock of Montecito Broadcasting Corporation (“Montecito”) for approximately \$33 million (the “Montecito Acquisition”). Montecito owns all of the issued and outstanding stock of Channel 33, Inc. which owns and operates KFBT-TV in Las Vegas, Nevada. Currently, the Company is a Guarantor of Montecito Indebtedness of approximately \$33 million. The Company cannot acquire Montecito unless and until FCC rules permit Sinclair to own the broadcast license for more than one station in the Las Vegas market, or unless Sinclair no longer owns the broadcast license for KUPN-TV in Las Vegas. The Company will operate KFBT-TV through an LMA upon expiration of the applicable HSR Act waiting period. The Company expects to be able to enter into the LMA in the second quarter of 1998.

Sullivan Acquisition. In February 1998, the Company entered into an agreement to acquire all of the capital stock of Sullivan Broadcast Holdings, Inc. (“Sullivan Holdings”) and Sullivan Broadcasting Company II, Inc. (“Sullivan II” and, together with Sullivan Holdings, “Sullivan”) for a purchase price expected to be approximately \$950 million to \$1 billion, less the amount certain outstanding indebtedness of Sullivan Holdings assumed by the Company (the “Sullivan Acquisition”). Upon the closing of all aspects of the Sullivan Acquisition, the Company will own or provide programming services to 13 additional television stations in 11 separate markets. The final purchase price will be based on a multiple of Sullivan’s projected 1998 cash flow calculated at the initial closing of the Sullivan Acquisition. As part of the total consideration, the Company, at its option, may issue to the sellers up to \$100 million of Class A Common Stock based on an average closing price of the Class A Common Stock. Among other conditions, the Sullivan Acquisition is subject to approval by the FCC and termination of the applicable waiting period under the HSR Act. An initial closing, at which the Company will acquire control of operating assets (excluding the License Assets) of, and acquire the right to program, the 13 television stations, is expected to occur in the second quarter of 1998. A second closing, at which the Company will acquire control of the License Assets of six of the stations, is expected to occur in the third quarter of 1998.

Report of Independent Public Accountants

To the Stockholders of
Sinclair Broadcast Group, Inc.:

We have audited the accompanying consolidated balance sheets of Sinclair Broadcast Group, Inc. (a Maryland corporation) and Subsidiaries as of December 31, 1996 and 1997, and the related consolidated statements of operations, stockholders' equity and cash flows for the years ended December 31, 1995, 1996 and 1997. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Sinclair Broadcast Group, Inc. and Subsidiaries as of December 31, 1996 and 1997, and the results of their operations and their cash flows for the years ended December 31, 1995, 1996 and 1997, in conformity with generally accepted accounting principles.

ARTHUR ANDERSEN LLP

Baltimore, Maryland,
February 9, 1998, except for Note 24, as to
which the date is February 23, 1998

Market for Registrant's Common Equity and Related Stockholder Matters

Price Range of Common Stock

Effective June 13, 1995, the common stock of the Company was listed for trading on the Nasdaq stock market under the symbol SBGI. The following table sets forth for the periods indicated the high and low sales prices on the Nasdaq stock market.

	1995*		1996		1997	
	High	Low	High	Low	High	Low
First Quarter			\$26.50	\$16.875	\$31.00	\$23.00
Second Quarter	\$29.00	\$23.50	43.50	25.50	30.875	23.25
Third Quarter	31.00	27.375	46.50	36.125	40.375	28.50
Fourth Quarter	27.75	16.25	43.75	23.00	46.625	33.625

* Second Quarter 1995 from June 13

As of March 16, 1998, there were approximately 77 stockholders of record of the common stock of the Company. This number does not include beneficial owners holding shares through nominee names. Based on information available to it, the Company believes it has more than 1500 beneficial owners of its Class A Common Stock.

The Company generally has not paid a dividend on its common stock and does not expect to pay dividends on its common stock in the foreseeable future. The 1997 Bank Credit Agreement and certain subordinated debt of the Company generally prohibit the Company from paying dividends on its common stock. Under the indentures governing the Company's 10% Senior Subordinated Notes due 2003, 10% Senior Subordinated Notes due 2005, 9% Senior Subordinated Notes due 2007 and 8¾% Senior Subordinated Notes due 2007, the Company is not permitted to pay dividends on its common stock unless certain specified conditions are satisfied, including that (i) no event of default then exists under the Indenture or certain other specified agreements relating to indebtedness of the Company and (ii) the Company, after taking account of the dividend, is in compliance with certain net cash flow requirements contained in the Indenture. In addition, under certain senior unsecured debt of the Company, the payment of dividends is not permissible during a default thereunder.

S I N C L A I R B R O A D C A S T G R O U P , I N C .

Officers

David D. Smith
President and Chief Executive Officer

Frederick G. Smith
Vice President

J. Duncan Smith
Vice President and Secretary

Robert E. Smith
Vice President and Treasurer

David B. Amy
Chief Financial Officer

Board of Directors

David D. Smith
*Chairman of the Board, President
and Chief Executive Officer*

Frederick G. Smith
Vice President

J. Duncan Smith
Vice President and Secretary

Robert E. Smith
Vice President and Treasurer

Lawrence E. McCanna
*Managing Partner, Gross,
Mendelsohn & Associates, P.A.*

Basil A. Thomas
Of Counsel, Thomas & Libowitz, P.A.

Special Consultants

Barry Baker
CEO-Designate, SCI

Kerby E. Confer
CEO-Designate, SCI Radio

Key Executives

Barry P. Drake
Chief Operating Officer, SCI Radio

Robert D. Gluck
Regional Director, SCI

Michael D. Granados
Regional Director, SCI

Steven M. Marks
Regional Director, SCI

Stuart B. Powell
Regional Director, SCI

John T. Quigley
Regional Director, SCI

Frank A. Quitoni
Regional Director, SCI

Frank W. Bell
VP / Programming, SCI Radio

M. William Butler
VP / Group Program Director, SCI

Lynn A. Deppen
VP / Engineering, SCI Radio

Michael Draman
VP / TV Sales and Marketing, SCI

Stephen A. Eisenberg
VP / Director of National Sales, SCI

Nat S. Ostroff
VP / New Technology

Delbert R. Parks III
VP / Operations and Engineering, SCI

Robert E. Quicksilver
VP / General Counsel, SCI

Thomas E. Severson
Corporate Controller

Michael E. Sileck
VP / Finance, SCI

Jeffrey W. Sleete
VP / Sales and Marketing, SCI Radio

Robin A. Smith
Chief Financial Officer, SCI Radio

Patrick J. Talamantes
Director of Corporate Finance

Annual Meeting

The Annual Meeting of Stockholders will be held in the Lindsay Room at the Sheraton Baltimore North Hotel, 903 Dulaney Valley Road, Towson, MD 21204 on Monday, May 11, 1998.

Independent Public Accountants

Arthur Andersen LLP
120 East Baltimore Street
Baltimore, MD 21202

Transfer Agent and Registrar

Boston Equiserve L.P.
Investor Relations
Mail Stop 45-02-64
P.O. Box 644
Boston, MA 02102

Form 10-K/A, Annual Report

A copy of Sinclair Broadcast Group's 1997 Form 10-K/A as filed with the Securities and Exchange Commission is available upon written request by contacting:

Patrick J. Talamantes
Director of Corporate Finance
Sinclair Broadcast Group, Inc.
2000 West 41st Street
Baltimore, MD 21211-1420
E-mail: ir@sbgnet.com
or visit our Investor Relations
site on the World Wide Web at
www.sbgnet.net.

Common Stock

The Company's Common Stock trades on the Nasdaq National Market tier of the NasdaqSM Stock Market under the symbol SBGI.

Convertible Preferred Stock

The Company's Convertible Preferred Stock trades on the Nasdaq National Market tier of the NasdaqSM Stock Market under the symbol SBGI.

The matters discussed in this annual report include forward-looking statements. In addition, when used in this annual report, the words "intends to," "believes," "anticipates," "expects" and similar expressions are intended to identify forward-looking statements. Such statements are subject to a number of risks and uncertainties. Actual results in the future could differ materially and adversely from those described in the forward-looking statements as a result of various important factors, including the impact of changes in national and regional economies, successful integration of acquired television and radio stations (including achievement of synergies and cost reductions), pricing fluctuations in local and national advertising, volatility in programming costs, the availability of suitable acquisitions on acceptable terms and the other risk factors set forth in the Company's prospectus filed with the Securities and Exchange Commission on March 17, 1998, pursuant to rule 424(b)(5). The Company undertakes no obligation to publicly release the result of any revisions to these forward-looking statements that may be made to reflect any future events or circumstances.



SINCLAIR BROADCAST GROUP

