

Sinclair Faces Federal Resistance Over Proposed Purchase of Tribune Media

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Sinclair Broadcast Group's headquarters in Cockeysville, MD. Photo: Kenneth K. Lam/Zuma Press

By

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At issue is Sinclair's proposed plan to spin off Tribune-owned television stations in New York and Chicago so that it will be in compliance with the FCC's ownership regulations, people familiar with the matter said. The FCC, which has a broad mandate to review whether the combination of the broadcasters would be in the public interest, is pushing back on the potential new owners of the spun-off stations, the people said.

Under the plan submitted to the FCC last month, Sinclair said it would sell WPIX-TV New York to Cunningham Broadcasting Corp. for \$15 million and WGN-TV Chicago to Steven Fader for \$60 million.

Both purchasers have long ties to Sinclair and its executive chairman, David Smith.

Cunningham Broadcasting is controlled by the estate of Carolyn Smith Cunningham, Mr. Smith's mother, and the majority of Cunningham Broadcasting's local TV stations are managed by Sinclair. Mr. Fader is a partner with Mr. Smith in Atlantic Automotive Corp., which owns car dealerships. At Atlantic Automotive, Mr. Fader serves as chief executive and Mr. Smith sits on the board.

Under the terms of the agreement Sinclair put forth to the FCC, Sinclair would operate the spun-off stations as if they were its own. However, Sinclair wouldn't be the licensee, meaning it would be in compliance with the FCC's ownership rules that limit how much of the country one broadcaster can reach. Besides handling advertising sales, Sinclair would also be involved in local news coverage.

Such agreements, known as “sidecar” arrangements, are allowed by the FCC. However, in the case of the New York and Chicago stations, the regulatory agency wants more distance between Sinclair and the would-be owners of the properties, the people said.

A representative for the FCC declined to comment on the Sinclair-Tribune review process. Sinclair’s Mr. Smith didn’t immediately respond to an email seeking comment. Sinclair shares fell after The Wall Street Journal reported the FCC’s resistance to the deal, ending 1% down.

While the FCC and Sinclair are haggling over conditions and proposed station spin-offs to comply with ownership regulations, the deal itself is ultimately expected to receive FCC approval from the Republican-controlled agency.

The FCC concerns come as the low-profile TV broadcaster is thrust into the national spotlight following recent promotions for its local news that criticize national media outlets of publishing fake news and echo media criticisms made by President Donald Trump.

The future owners of WPIX and WGN and other stations Sinclair may have to unload in order to secure regulatory approval aren’t the only issue. The FCC wants safeguards in the sidecar contracts that would limit Sinclair’s ability to influence the operations of the stations, a person familiar with matter said.

There is also concern at the FCC that Sinclair is selling the stations for below market prices given that they are two of the most-valued assets of the Tribune portfolio, people familiar with the matter said.

The Justice Department is conducting its own review of the deal as well. It previously indicated that the it would approve the merger if the companies sell off roughly a dozen stations to address antitrust issues in markets where the combined entity would have a commanding presence.

Sinclair is expected to make another filing addressing the FCC’s concerns in the weeks ahead. It is the latest in several amended applications that Sinclair has had to file at the FCC since it announced its purchase of Tribune’s 42 television stations nearly a year ago.

Since being appointed chairman of the FCC by President Trump, Ajit Pai has pushed through several measures that helped clear the way for Sinclair's acquisition of Tribune. He has advocated for more deregulation of the local television industry, contending the change is needed to allow media owners to compete more effectively against online rivals.

One of Mr. Pai's first moves as chairman was to change how station owners count certain TV stations toward their national ownership caps, and Sinclair announced its deal with Tribune shortly after. Then late last year, the FCC eased limits on local media ownership, which, in part, made it easier for a company to own two TV stations in a single market.

In February, a federal inspector general opened an investigation into such actions by FCC regulators at the urging of two congressmen, further complicating the government's review of the Sinclair-Tribune deal. The lawmakers said they were concerned that Mr. Pai might have improperly colluded with Sinclair by timing rule changes on media ownership to help smooth the way for the takeover. Mr. Pai's office has called the charge of favoritism "absurd." The ongoing probe is another complication for the FCC and Sinclair in the review of the deal.

For Sinclair, maintaining ties to the New York and Chicago stations is desirable because if the FCC further deregulates the ownership caps, it could then acquire them outright. Sinclair has said it would spin off a Tribune station in San Diego as well.

Already one of the nation's biggest broadcasters with 173 TV stations primarily in mid-sized and smaller markets, Sinclair and its deal with Tribune have already raised concern among some media watchdogs that Sinclair is getting too big.

FCC Commissioner Jessica Rosenworcel, a Democrat, has expressed similar concerns about media consolidation and its effect on local communities. In a speech at the National Association of Broadcasters on Monday, she said the FCC's recent deregulatory attitude towards broadcasting is a case of "special treatment" for Sinclair.

Liberal critics of the deal have also pointed to Sinclair's reputation for conservative leanings, critiques further fueled by recent headlines regarding Sinclair's news promotions. The segments, which the company had anchors at the majority of its stations read on air, accused national media outlets of publishing "fake news stories without checking the facts first" and said many journalists are using their platforms to "push their own personal bias and agenda" and are "extremely dangerous to our democracy."

The promos have been met with criticism from media activists and even some Sinclair employees. A handful of stations refused to run the promos.

Sinclair said in a statement that the promotions aren't part of a political agenda and "represent nothing more than an effort to differentiate our award-winning news programming from other, less reliable sources of information."

President Trump praised Sinclair in tweets recently, saying Sinclair is "far superior" to CNN and NBC News.

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