RYDER SYSTEM INC
Form 10-Q
April 22, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2009**

OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM _________ TO _________**

Commission File Number: 1-4364

RYDER SYSTEM, INC.

(Exact name of registrant as specified in its charter)

Florida	**59-0739250**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*
11690 N.W. 105th Street Miami, Florida 33178	**(305) 500-3726**
(Address of principal executive offices, including zip code)	*(Registrant s telephone number, including area code)*

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES þ NO o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). o YES o NO

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

Large accelerated filer þ Accelerated filer o Non-accelerated filer o (Do not check if a smaller reporting company) Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act) o YES þ NO

The number of shares of Ryder System, Inc. Common Stock ($0.50 par value per share) outstanding at March 31, 2009 was 55,889,833.

RYDER SYSTEM, INC.
FORM 10-Q QUARTERLY REPORT
TABLE OF CONTENTS

Table of Contents

PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS
RYDER SYSTEM, INC. AND SUBSIDIARIES
CONSOLIDATED CONDENSED STATEMENTS OF EARNINGS
(unaudited)

	Three months ended March 31,	
	2009	2008
	(In thousands, except per share amounts)	
Revenue	$ **1,203,060**	1,543,582
Operating expense (exclusive of items shown separately)	**544,466**	763,767
Salaries and employee-related costs	**310,258**	358,370
Subcontracted transportation	**52,620**	75,331
Depreciation expense	**222,521**	205,960
Gains on vehicle sales, net	**(3,973)**	(12,426)
Equipment rental	**15,607**	21,526
Interest expense	**38,807**	37,428
Miscellaneous expense, net	**418**	1,617
Restructuring and other charges (recoveries), net	**4,185**	(78)
	1,184,909	1,451,495
Earnings before income taxes	**18,151**	92,087
Provision for income taxes	**11,313**	36,005
Net earnings	$ **6,838**	56,082
Earnings per common share:		
Basic	$ **0.12**	0.97
Diluted	$ **0.12**	0.96
Cash dividends per common share	$ **0.23**	0.23

See accompanying notes to consolidated condensed financial statements.

Table of Contents

RYDER SYSTEM, INC. AND SUBSIDIARIES
CONSOLIDATED CONDENSED BALANCE SHEETS
(unaudited)

	March 31, 2009	December 31, 2008
	(Dollars in thousands, except per share amount)	
Assets:		
Current assets:		
Cash and cash equivalents	$ **91,574**	120,305
Receivables, net of allowance of $13,249 and $15,477, respectively	**567,014**	635,376
Inventories	**47,925**	48,324
Prepaid expenses and other current assets	**127,037**	147,191
Total current assets	**833,550**	951,196
Revenue earning equipment, net of accumulated depreciation of $2,815,230 and $2,749,654, respectively	**4,556,306**	4,565,224
Operating property and equipment, net of accumulated depreciation of $856,712 and $842,427, respectively	**542,919**	546,816
Goodwill	**217,185**	198,253
Intangible assets	**39,624**	36,705
Direct financing leases and other assets	**380,836**	391,314
Total assets	$ **6,570,420**	6,689,508
Liabilities and shareholders equity:		
Current liabilities:		
Short-term debt and current portion of long-term debt	$ **107,076**	384,262
Accounts payable	**256,632**	295,083
Accrued expenses and other current liabilities	**376,873**	431,820
Total current liabilities	**740,581**	1,111,165
Long-term debt	**2,740,312**	2,478,537
Other non-current liabilities	**850,682**	837,280
Deferred income taxes	**910,668**	917,365
Total liabilities	**5,242,243**	5,344,347
Shareholders equity:		
Preferred stock of no par value per share authorized, 3,800,917; none outstanding, March 31, 2009 or December 31, 2008		
Common stock of $0.50 par value per share authorized, 400,000,000; outstanding, March 31, 2009 55,889,833; December 31, 2008 55,658,059	**27,945**	27,829
Additional paid-in capital	**762,245**	756,190
Retained earnings	**1,099,349**	1,105,369

Accumulated other comprehensive loss	**(561,362)**	(544,227)
Total shareholders equity	**1,328,177**	1,345,161
Total liabilities and shareholders equity	**$ 6,570,420**	6,689,508

See accompanying notes to consolidated condensed financial statements.

Table of Contents

RYDER SYSTEM, INC. AND SUBSIDIARIES
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
(unaudited)

	Three months ended March 31,	
	2009	2008
	(In thousands)	
Cash flows from operating activities:		
Net earnings	$ **6,838**	56,082
Depreciation expense	**222,521**	205,960
Gains on vehicle sales, net	**(3,973)**	(12,426)
Share-based compensation expense	**4,771**	3,635
Amortization expense and other non-cash charges, net	**9,016**	5,197
Deferred income tax expense	**5,079**	28,132
Tax benefits from share-based compensation	**1**	592
Changes in operating assets and liabilities, net of acquisitions:		
Receivables	**59,441**	74,183
Inventories	**535**	(130)
Prepaid expenses and other assets	**(5,591)**	(15,915)
Accounts payable	**(9,257)**	(41,826)
Accrued expenses and other non-current liabilities	**(35,586)**	(3,232)
Net cash provided by operating activities	**253,795**	300,252
Cash flows from financing activities:		
Net change in commercial paper borrowings	**266,089**	(238,351)
Debt proceeds	**66**	453,624
Debt repaid, including capital lease obligations	**(277,651)**	(201,726)
Dividends on common stock	**(12,858)**	(13,414)
Common stock issued	**1,209**	35,241
Common stock repurchased		(93,751)
Excess tax benefits from share-based compensation	**190**	2,332
Net cash used in financing activities	**(22,955)**	(56,045)
Cash flows from investing activities:		
Purchases of property and revenue earning equipment	**(252,033)**	(273,813)
Sales of revenue earning equipment	**46,397**	74,304
Sales of operating property and equipment	**795**	679
Acquisitions	**(85,454)**	(92,830)
Collections on direct finance leases	**21,468**	17,628
Changes in restricted cash	**11,208**	23,934
Other, net		395
Net cash used in investing activities	**(257,619)**	(249,703)

Effect of exchange rate changes on cash	**(1,952)**	3,658
Decrease in cash and cash equivalents	**(28,731)**	(1,838)
Cash and cash equivalents at January 1	**120,305**	116,459
Cash and cash equivalents at March 31	**$ 91,574**	114,621
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	**$ 35,311**	18,026
Income taxes, net of refunds	**4,007**	7,498
Non-cash investing activities:		
Changes in accounts payable related to purchases of revenue earning equipment	**(27,347)**	58,617
Revenue earning equipment acquired under capital leases	**1,949**	773

See accompanying notes to consolidated condensed financial statements.

3

Table of Contents

RYDER SYSTEM, INC. AND SUBSIDIARIES
CONSOLIDATED CONDENSED STATEMENT OF SHAREHOLDERS EQUITY
(unaudited)

	Preferred Stock Amount	Common Stock Shares	Common Stock Par	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total
	(Dollars in thousands, except per share amount)						
Balance at December 31, 2008	$	55,658,059	$ 27,829	756,190	1,105,369	(544,227)	1,345,161
Components of comprehensive loss:							
Net earnings					**6,838**		**6,838**
Foreign currency translation adjustments						**(20,877)**	**(20,877)**
Net unrealized gain related to derivatives accounted for as hedges						**143**	**143**
Amortization of pension and postretirement items, net of tax						**3,743**	**3,743**
Change in net actuarial loss, net of tax						**(144)**	**(144)**
Total comprehensive loss							**(10,297)**
Common stock dividends declared $0.23 per share					**(12,858)**		**(12,858)**
Common stock issued under employee stock option and stock purchase plans (1)		**233,684**	**117**	**1,132**			**1,249**
Benefit plan stock purchases (2)		**(1,910)**	**(1)**	**(39)**			**(40)**
Share-based compensation				**4,771**			**4,771**
Tax benefits from share-based compensation				**191**			**191**
Balance at March 31, 2009	**$**	**55,889,833**	**$ 27,945**	**762,245**	**1,099,349**	**(561,362)**	**1,328,177**

(1) Net of common shares delivered as payment for the exercise price or to

satisfy the option holders withholding tax liability upon exercise of options.

(2) Represents open-market transactions of common shares by the trustee of Ryder s deferred compensation plans.

See accompanying notes to consolidated condensed financial statements.

Table of Contents

RYDER SYSTEM, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(unaudited)

(A) INTERIM FINANCIAL STATEMENTS

The accompanying unaudited Consolidated Condensed Financial Statements include the accounts of Ryder System, Inc. (Ryder) and all entities in which Ryder System, Inc. has a controlling voting interest (subsidiaries), and variable interest entities (VIEs) required to be consolidated in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). The accompanying unaudited Consolidated Condensed Financial Statements have been prepared in accordance with the accounting policies described in our 2008 Annual Report on Form 10-K except for the accounting changes described below relating to earnings per share data, business combinations and certain fair value measurements, and should be read in conjunction with the Consolidated Financial Statements and notes thereto. These financial statements do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included and the disclosures herein are adequate. The operating results for interim periods are unaudited and are not necessarily indicative of the results that can be expected for a full year. Certain prior year amounts have been reclassified to conform to the current period presentation. During the fourth quarter of 2008, we decided to discontinue operations in Brazil, Argentina, and Chile during 2009 and transition out of specific Supply Chain Solutions customer contracts in Europe. These operations will be reported as part of continuing operations in our Consolidated Condensed Financial Statements until all operations cease.

(B) ACCOUNTING CHANGES

In June 2008, the Financial Accounting Standards Board (FASB) issued Staff Position (FSP) Emerging Issues Task Force (EITF) 03-6-1, Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities. This FSP provides that unvested share-based payment awards that contain non-forfeitable rights to dividends are participating securities and shall be included in the computation of earnings per share pursuant to the two-class method described in Statement of Financial Accounting Standards (SFAS) No. 128, Earnings per Share. The two-class method of computing earnings per share is an earnings allocation formula that determines earnings per share for common stock and any participating securities according to dividends declared (whether paid or unpaid) and participation rights in undistributed earnings. Our nonvested stock (time-vested restricted stock rights, market-based restricted stock rights and restricted stock units) are considered participating securities since the share-based awards contain a non-forfeitable right to dividends irrespective of whether the awards ultimately vest. This FSP is effective for financial statements issued for fiscal years beginning after December 15, 2008 and interim periods within those years. Upon adoption, we are required to retrospectively adjust earnings per share data to conform to the provisions in this FSP. Accordingly, we adopted the provisions of FSP EITF 03-6-1 effective January 1, 2009 and computed earnings per common share using the two-class method for all periods presented. FSP EITF 03-6-1 reduced full year 2008, 2007 and 2006 diluted earnings per common share by $0.02, $0.02 and $0.01, respectively, and had no impact on our first quarter 2008 or 2009 earnings per common share. Refer to Note (E), Earnings per Share, for additional disclosures.

In December 2007, the FASB issued SFAS No. 141R, Business Combinations. This statement amends SFAS No. 141, Business Combinations, and provides revised guidance for recognizing and measuring assets acquired and liabilities assumed in a business combination. This statement also requires, among other things, that transaction costs in a business combination be expensed as incurred. SFAS No. 141R was effective for business combinations closing after January 1, 2009. Effective January 1, 2009, we adopted the provisions of SFAS No. 141R without a material impact to our Consolidated Condensed Financial Statements.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements. This statement defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The provisions of SFAS No. 157 are to be applied prospectively, except for certain financial instruments, which should be recognized as a cumulative effect adjustment to the opening balance of retained earnings for the fiscal year in which this statement is initially applied. We adopted SFAS No. 157 on January 1, 2008 for all financial assets and liabilities and for all nonfinancial assets and liabilities recognized or disclosed at fair value in our Consolidated Condensed Financial Statements on a recurring basis (at least annually). We adopted SFAS No. 157 on January 1, 2009 for all other nonfinancial assets and liabilities, including our vehicles held for sale. The adoption of SFAS No. 157 did not have a material impact on our Consolidated Condensed Financial Statements. Refer to Note (K), Fair Value Measurements, for additional disclosures.

RYDER SYSTEM, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)
(unaudited)

(C) ACQUISITIONS

Edart Leasing LLC Acquisition On February 2, 2009, we acquired the assets of Edart Leasing LLC (Edart), which included Edart s fleet of approximately 1,600 vehicles and more than 340 contractual customers from Edart s five locations in Connecticut for a purchase price of $87.4 million, of which $81.3 million was paid as of March 31, 2009. The initial recording of the transaction was based on preliminary valuation assessments and is subject to change. As of March 31, 2009, goodwill and customer relationship intangibles related to the Edart acquisition were $18.4 million and $4.3 million, respectively. The combined network operates under the Ryder name, complementing our Fleet Management Solutions (FMS) business segment market coverage in the Northeast. We also acquired approximately 525 vehicles that will be re-marketed. The asset purchase was accounted for in accordance with SFAS No. 141R, Business Combinations, as an acquisition of a business.

Transpacific Container Terminal Ltd. and CRSA Logistics Ltd. Acquisition On December 19, 2008, we acquired the assets of Transpacific Container Terminal Ltd. and CRSA Logistics Ltd. (CRSA) located in Port Coquitlam, British Columbia, as well as CRSA s operations in Hong Kong and Shanghai, China. The companies specialize in trans-Pacific, end-to-end transportation management and supply chain services primarily for Canadian retailers. This acquisition adds complementary solutions to our Supply Chain Solutions (SCS) business segment capabilities including consolidation services in key Asian hub and off-dock deconsolidation operations in Canada. The purchase price and initial recording of the transaction was based on preliminary valuation assessments and is subject to change. The purchase price was $14.6 million, of which $12.1 million. During the three months ended March 31, 2009, we made purchase price adjustments primarily related to intangible valuations, which increased goodwill by $0.8 million. The terms of the asset purchase agreement provide for up to $4 million in contingent consideration to be paid to the seller if certain financial metrics are achieved. In accordance with SFAS No. 141, contingent consideration will be accounted for as additional purchase price when the contingency is resolved.

2008 FMS Acquisitions During 2008, we completed a series of acquisitions in our FMS business segment, for a total purchase price of $239.6 million, of which $92.8 million was paid in the first quarter of 2008. We acquired all the assets of Gordon Truck Leasing, Gator Leasing Inc. and Lily Transportation Corporation. As of March 31, 2009, goodwill and intangible assets related to the 2008 FMS acquisitions were $56.5 million and $13.7 million, respectively. During the three months ended March 31, 2009, purchase price adjustments were not significant. The 2008 FMS acquisitions were accounted for in accordance with SFAS No. 141, as an acquisition of a business.

During the first quarter of 2009 we paid $4.2 million related to acquisitions completed in prior years. Pro forma information for these acquisitions is not disclosed because the effects of these acquisitions are not significant.

(D) SHARE-BASED COMPENSATION PLANS

Share-based incentive awards are provided to employees under the terms of various share-based compensation plans (collectively, the Plans). The Plans are administered by the Compensation Committee of the Board of Directors. Awards under the Plans principally include at-the-money stock options, nonvested stock and cash awards. Share-based compensation expense is generally recorded in Salaries and employee-related costs in the Consolidated Condensed Statements of Earnings.

The following table provides information on share-based compensation expense and income tax benefits recognized during the periods:

	Three months ended March 31,	
	2009	2008
	(In thousands)	
Stock option and stock purchase plans	$ **2,813**	2,255
Nonvested stock	**1,958**	1,380

Share-based compensation expense	**4,771**	3,635
Income tax benefit	**(1,519)**	(1,293)
Share-based compensation expense, net of tax	**$ 3,252**	2,342

Total unrecognized pre-tax compensation expense related to share-based compensation arrangements at March 31, 2009 was $35.7 million and is expected to be recognized over a weighted-average period of approximately 2.1 years.

Table of Contents

RYDER SYSTEM, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)
(unaudited)

During the three months ended March 31, 2009 and 2008, approximately 900,000 and 600,000 stock options, respectively, were granted under the Plans. These awards, which generally vest one-third each year, are fully vested three years from the grant date and have contractual terms of seven years. The fair value of each option award at the date of grant was estimated using a Black-Scholes-Merton option-pricing valuation model. The weighted-average fair value of options granted during the three months ended March 31, 2009 and 2008 was $9.24 and $13.82, respectively.

During each of the three months ended March 31, 2009 and 2008, approximately 200,000 awards of restricted stock rights were granted under the Plans. The majority of the restricted stock rights granted during the periods included a market-based vesting provision. In 2009, the provision was such that employees only receive the grant of stock if the average monthly differential between Ryder s total shareholder return (TSR) and the S&P 500 TSR over an applicable three-year period is greater than zero. In 2008, the provision was such that employees only receive the grant of stock if Ryder s TSR as a percentage of the S&P 500 comparable period TSR is 100% or greater over an applicable three-year period. The fair value of the market-based restricted stock rights on the grant date was estimated using a lattice-based option-pricing valuation model that incorporates a Monte-Carlo simulation. The weighted-average fair value of market-based restricted stock rights granted during the three months ended March 31, 2009 and 2008 was $16.52 and $48.71, respectively. Stock awards granted during the three months ended March 31, 2008, also included time-vested restricted stock rights which entitle the holder to shares of common stock as the awards vest over a three-year period. The fair value of the time-vested awards is determined and fixed on the grant date based on Ryder s stock price. The weighted-average fair value of the time-vested restricted stock rights granted during the three months ended March 31, 2008 was $57.86.

During the three months ended March 31, 2009 and 2008, employees who received market-based restricted stock rights also received market-based cash awards. The awards will vest on the same date as the market-based restricted stock rights if Ryder s TSR is equal to or better than the TSR of the S&P 500 s 33rd percentile over an applicable three-year period. The cash awards are accounted for as liability awards as the cash settlement amount is based upon the price of our common stock. As a result, the liability is adjusted to reflect fair value at the end of each reporting period. The fair value of the cash awards was estimated using a lattice-based option-pricing valuation model that incorporates a Monte-Carlo simulation. During the three months ended March 31, 2009 and 2008, we recognized $0.3 million and $1.2 million, respectively, of compensation expense related to these cash awards in addition to the share-based compensation expense reported in the previous table.

(E) EARNINGS PER SHARE

Effective January 1, 2009, we adopted FSP EITF 03-6-1, Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities, which required us to use the two-class method to calculate earnings per share. Under the two-class method, earnings per common share are computed by dividing the sum of distributed earnings to common shareholders and undistributed earnings allocated to common shareholders by the weighted average number of common shares outstanding for the period. In applying the two-class method, undistributed earnings are allocated to both common shares and participating securities based on the weighted average shares outstanding during the period.

Table of Contents

RYDER SYSTEM, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)
(unaudited)

The following table presents the calculation of basic and diluted earnings per common share:

	Three months ended March 31,	
	2009	2008
	(In thousands, except per share amounts)	
Earnings per share Basic:		
Net earnings	$ **6,838**	56,082
Less: Distributed and undistributed earnings allocated to nonvested stock	**(72)**	(434)
Earnings available to common shareholders Basic	$ **6,766**	55,648
Weighted average common shares outstanding Basic	**55,238**	57,595
Earnings per common share Basic	$ **0.12**	0.97
Earnings per share Diluted:		
Net earnings	$ **6,838**	56,082
Less: Distributed and undistributed earnings allocated to nonvested stock	**(72)**	(432)
Earnings available to common shareholders Diluted	$ **6,766**	55,650
Weighted average common shares outstanding Basic	**55,238**	57,595
Effect of dilutive options	**43**	378
Weighted average common shares outstanding Diluted	**55,281**	57,973
Earnings per common share Diluted	$ **0.12**	0.96
Anti-dilutive equity awards not included above	**2,651**	1,124

(F) RESTRUCTURING AND OTHER CHARGES (RECOVERIES)

The components of restructuring and other charges (recoveries), net were as follows:

	Three months ended March 31,	
	2009	2008

	(In thousands)	
Restructuring charges (recoveries), net:		
Severance and employee-related charges (recoveries)	**$ 2,962**	(78)
Contract termination costs	**312**	
	3,274	(78)
Other charges, net:		
Asset impairments	**21**	
Plan implementation costs	**890**	
Total	**$ 4,185**	(78)

Table of Contents

RYDER SYSTEM, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)
(unaudited)

As noted in Note (R), Segment Reporting, our primary measure of segment financial performance excludes, among other items, restructuring and other charges (recoveries), net; however, the applicable portion of the restructuring and other charges (recoveries), net that relates to each segment was as follows:

	Three months ended March 31,	
	2009	2008
	(In thousands)	
Fleet Management Solutions	$ **1,699**	
Supply Chain Solutions	**2,304**	(125)
Dedicated Contract Carriage	**48**	
Central Support Services	**134**	47
Total	$ **4,185**	(78)

Restructuring charges, net for the three months ended March 31, 2009 totaled $4.2 million and were due primarily to ongoing costs related to the restructuring plan announced in the fourth quarter of 2008. During the first quarter of 2009, we recorded a charge of $1.8 million related to exiting SCS operations in South America and Europe. These charges included $0.6 million of employee severance and benefit costs related to retention bonuses and refinements in estimates recorded in the prior year. The charges also included $0.3 million of contract termination costs and $0.9 million of plan implementation costs, mostly professional service fees. During the first quarter of 2009, we also recorded a charge of $2.4 million of employee severance and benefit costs related to workforce reductions and refinements in workforce reduction estimates from the prior year charge. We eliminated approximately 30 positions in 2009 as part of our continued cost containment initiatives.

Activity related to restructuring reserves was as follows:

	December 31, 2008		**Deductions**		**March 31, 2009**
	Balance	**Additions**	**Cash Payments**	**Non-Cash Reductions(1)**	**Balance**
			(In thousands)		
Employee severance and benefits	$ 26,541	**3,703**	**8,361**	**741**	**21,142**
Contract termination costs	3,482	**312**	**272**		**3,522**
Total	$ 30,023	**4,015**	**8,633**	**741**	**24,664**

(1) Non-cash reductions represent adjustments to the restructuring

reserves as actual costs were less than originally estimated.

At March 31, 2009, the majority of outstanding restructuring obligations are required to be paid over the next nine months.

(G) REVENUE EARNING EQUIPMENT

	March 31, 2009			December 31, 2008		
	Cost	**Accumulated Depreciation**	**Net Book Value(1)**	Cost	Accumulated Depreciation	Net Book Value (1)
			(In thousands)			
Full service lease	**$ 5,948,410**	**(2,175,844)**	**3,772,566**	$ 5,568,162	(1,957,535)	3,610,627
Commercial rental	**1,423,126**	**(639,386)**	**783,740**	1,746,716	(792,119)	954,597
Total	**$ 7,371,536**	**(2,815,230)**	**4,556,306**	$ 7,314,878	(2,749,654)	4,565,224

(1) Revenue earning equipment, net includes vehicles acquired under capital leases of $22.4 million, less accumulated amortization of $6.8 million, at March 31, 2009, and $20.2 million, less accumulated amortization of $5.1 million, at December 31, 2008. Amortization expense attributed to vehicles acquired under capital leases is combined with depreciation expense.

Table of Contents

RYDER SYSTEM, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)
(unaudited)

(H) ACCRUED EXPENSES AND OTHER LIABILITIES

	March 31, 2009			December 31, 2008		
	Accrued Expenses	**Non-Current Liabilities**	**Total**	Accrued Expenses	Non-Current Liabilities	Total
	(In thousands)					
Salaries and wages	**$ 43,107**		**43,107**	$ 69,697		69,697
Deferred compensation	**1,151**	**15,802**	**16,953**	1,453	18,050	19,503
Pension benefits	**2,489**	**512,565**	**515,054**	2,501	504,714	507,215
Other postretirement benefits	**3,333**	**43,381**	**46,714**	3,350	43,027	46,377
Employee benefits	**1,415**		**1,415**	5,185		5,185
Insurance obligations	**106,460**	**162,075**	**268,535**	109,167	164,372	273,539
Residual value guarantees	**918**	**1,795**	**2,713**	651	1,738	2,389
Vehicle rent	**2,437**	**11,287**	**13,724**	16,680	7,167	23,847
Deferred vehicle gains	**796**	**2,867**	**3,663**	808	3,120	3,928
Environmental liabilities	**3,950**	**11,462**	**15,412**	3,848	11,623	15,471
Asset retirement obligations	**5,081**	**10,961**	**16,042**	4,544	11,146	15,690
Operating taxes	**72,441**		**72,441**	73,280		73,280
Income taxes	**3,673**	**54,090**	**57,763**	4,183	52,700	56,883
Restructuring	**24,513**	**151**	**24,664**	29,857	166	30,023
Interest	**36,951**		**36,951**	34,547		34,547
Customer deposits	**25,966**		**25,966**	27,017		27,017
Derivatives	**531**		**531**	607		607
Other	**41,661**	**24,246**	**65,907**	44,445	19,457	63,902
Total	**$ 376,873**	**850,682**	**1,227,555**	$ 431,820	837,280	1,269,100

(I) INCOME TAXES

Effective Tax Rate

Our effective tax rate for the first quarter of 2009 increased to 62.3% as compared to 39.1% in the same period in 2008 due mainly to non-deductible foreign operating losses and charges. The foreign operating losses included the Singapore impairment charge described in Note (Q), Other Items Impacting Comparability.

Uncertain Tax Positions

We are subject to tax audits in numerous jurisdictions in the U.S. and around the world. Tax audits by their very nature are often complex and can require several years to complete. In the normal course of business, we are subject to challenges from the Internal Revenue Service (IRS) and other tax authorities regarding amounts of taxes due. These challenges may alter the timing or amount of taxable income or deductions, or the allocation of income among tax jurisdictions. As part of our calculation of the provision for income taxes on earnings, we determine whether the benefits of our tax positions are at least more likely than not of being sustained upon audit based on the technical merits of the tax position. For tax positions that are more likely than not of being sustained upon audit, we accrue the largest amount of the benefit that is more likely than not of being sustained in our Consolidated Condensed Financial Statements. Such accruals require management to make estimates and judgments with respect to the ultimate outcome of a tax audit. Actual results could vary materially from these estimates.

The following is a summary of tax years that are no longer subject to examination:

Federal audits of our U.S. federal income tax returns are closed through fiscal year 2006. In the first quarter of 2009, the IRS completed their examination of our U.S. income tax returns for 2004 through 2006. The statute of limitation for the 2004, 2005 and 2006 years will expire on December 31, 2009, September 15, 2009 and September 15, 2010, respectively.

State for the majority of states, we are no longer subject to tax examinations by tax authorities for tax years before 2004.

RYDER SYSTEM, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)
(unaudited)

Foreign we are no longer subject to foreign tax examinations by tax authorities for tax years before 2001 in Canada and Brazil, and 2003 and 2006 in Mexico and the U.K., respectively, which are our major foreign tax jurisdictions. In Brazil, we were assessed $10.8 million, including penalties and interest, related to the tax due on the sale of our outbound auto carriage business in 2001. We believe it is more likely than not that our tax position will ultimately be sustained and no amounts have been reserved for this matter.

At March 31, 2009 and December 31, 2008, the total amount of gross unrecognized tax benefits (excluding the federal benefit received from state positions) was $52.9 million and $51.7 million, respectively. Unrecognized tax benefits related to federal, state and foreign tax positions may decrease by $1.7 million by March 31, 2010, if audits are completed or tax years close.

Tax Law Change

On February 19, 2009, the State of Wisconsin enacted changes to its tax system, which included mandatory unitary combined reporting. The impact of this change resulted in a favorable non-cash adjustment to deferred income taxes and increased net earnings in the three months ended March 31, 2009 by $0.5 million, or $0.01 per diluted common share.

Like-Kind Exchange Program

We have a like-kind exchange program for certain of our revenue earning equipment operating in the U.S. Pursuant to the program, we dispose of vehicles and acquire replacement vehicles in a form whereby tax gains on disposal of eligible vehicles are deferred. To qualify for like-kind exchange treatment, we exchange, through a qualified intermediary, eligible vehicles being disposed of with vehicles being acquired allowing us to generally carryover the tax basis of the vehicles sold (like-kind exchanges). The program is expected to result in a material deferral of federal and state income taxes. As part of the program, the proceeds from the sale of eligible vehicles are restricted for the acquisition of replacement vehicles and other specified applications. Due to the structure utilized to facilitate the like-kind exchanges, the qualified intermediary that holds the proceeds from the sales of eligible vehicles and the entity that holds the vehicles to be acquired under the program are required to be consolidated in the accompanying Consolidated Condensed Financial Statements in accordance with U.S. GAAP. At March 31, 2009 and December 31, 2008, these consolidated entities had total assets of $42.1 million and $70.5 million, respectively.

At March 31, 2009 and December 31, 2008, we had $21.3 million and $32.5 million, respectively, of restricted cash for all like-kind exchange programs included within Prepaid expenses and other current assets on the Consolidated Condensed Balance Sheets.

Table of Contents

RYDER SYSTEM, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)
(unaudited)

(J) DEBT

	Weighted-Average Interest Rate				
	March 31, 2009	December 31, 2008	**Maturities**	**March 31, 2009**	December 31, 2008
				(In thousands)	
Short-term debt and current portion of long-term debt:					
Unsecured foreign obligations	**8.35%**	9.03 %	**2009**	**$ 10,542**	14,635
Trade receivables program	**1.31%**	2.77 %	**2009**	**90,000**	190,000
Current portion of long-term debt, including capital leases				**6,534**	179,627
Total short-term debt and current portion of long-term debt				**107,076**	384,262
Long-term debt:					
U.S. commercial paper [(1),(2)]	**1.17%**	3.63 %	**2010**	**287,294**	34,804
Canadian commercial paper [(1),(2)]	**1.43%**	2.80 %	**2010**	**21,413**	8,283
Unsecured U.S. notes Medium-term notes [(1)]	**5.86%**	5.73 %	**2009-2116**	**2,134,129**	2,306,751
Unsecured U.S. obligations, principally bank term loans	**3.28%**	3.40 %	**2010-2013**	**157,150**	157,150
Unsecured foreign obligations	**5.08%**	5.07 %	**2010-2012**	**116,652**	120,944
Capital lease obligations	**8.80%**	9.31 %	**2009-2017**	**13,089**	11,841
Total before fair market value adjustment				**2,729,727**	2,639,773
Fair market value adjustment on notes subject to hedging [(3)]				**17,119**	18,391
				2,746,846	2,658,164
Current portion of long-term debt, including capital leases				**(6,534)**	(179,627)
Long-term debt				**2,740,312**	2,478,537
Total debt				**$ 2,847,388**	2,862,799

(1) We had unamortized original issue discounts of $13.0 million and $12.0 million at March 31, 2009 and December 31, 2008,

respectively.

(2) *Commercial paper borrowings are supported by the long-term revolving credit facility; therefore we have classified the commercial paper as long-term debt.*

(3) *The notional amount of executed interest rate swaps designated as fair value hedges was $250.0 million at March 31, 2009 and December 31, 2008.*

We can borrow up to $870 million through a global revolving credit facility with a syndicate of twelve lenders. The credit facility matures in May 2010 and is used primarily to finance working capital and provide support for the issuance of commercial paper in the U.S. and Canada. This facility can also be used to issue up to $75 million in letters of credit (there were no letters of credit outstanding against the facility at March 31, 2009). At our option, the interest rate on borrowings under the credit facility is based on LIBOR, prime, federal funds or local equivalent rates. The credit facility s current annual facility fee is 11 basis points, which applies to the total facility of $870 million, and is based on Ryder s current credit ratings. The credit facility contains no provisions restricting its availability in the event of a material adverse change to Ryder s business operations; however, the credit facility does contain standard representations and warranties, events of default, cross-default provisions, and certain affirmative and negative covenants. In order to maintain availability of funding, we must maintain a ratio of debt to consolidated tangible net worth, of less than or equal to 300%. Tangible net worth for purposes of the credit facility excludes intangibles and includes a portion of our deferred income tax liability. The ratio at March 31, 2009 was 190%. At March 31, 2009, $559.0 million was available under the credit facility. Foreign borrowings of $21.4 million were outstanding under the facility at March 31, 2009.

In September 2008, we renewed our trade receivables purchase and sale program, pursuant to which we sell certain of our domestic trade accounts receivable to Ryder Receivable Funding II, L.L.C. (RRF LLC), a bankruptcy remote, consolidated subsidiary of Ryder, that in turn may sell, on a revolving basis, an ownership interest in certain of these accounts receivable to a receivables conduit or committed purchasers. We use this program to provide additional liquidity to fund our operations, particularly when it is cost effective to do so. The costs under the program may vary based on changes in our unsecured debt ratings and changes in interest rates. The available proceeds that may be received under the program are limited to $250 million. If no event occurs which causes early termination, the 364-day program will expire on September 8, 2009. The program contains provisions restricting its availability in the event of a material adverse change to our business operations or the collectibility of the securitized receivables. At March 31, 2009 and December 31, 2008, $90 million and $190 million, respectively, was outstanding under the program and was included within Short-term debt and current portion of long-term debt on our Consolidated Condensed Balance Sheets. At March 31, 2009 and December 31, 2008, collateralized receivables under the program were $99.3 million and $209.7 million, respectively.

Table of Contents

RYDER SYSTEM, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)
(unaudited)

In February 2008, we issued $250 million of unsecured medium-term notes maturing in March 2013. The proceeds from the notes were used for general corporate purposes. Concurrently, we entered into an interest rate swap with a notional amount of $250 million maturing in March 2013. The swap was designated as a fair value hedge whereby we receive fixed interest rate payments in exchange for making variable interest rate payments. The differential to be paid or received is accrued and recognized as interest expense. At March 31, 2009, the interest rate swap agreement effectively changed $250 million of fixed-rate debt with an interest rate of 6.00% to LIBOR-based floating-rate debt at a rate of 3.93%. Changes in the fair value of the interest rate swap are offset by changes in the fair value of the debt instrument. Accordingly, there is no ineffectiveness related to the interest rate swap. Refer to Note (L), Derivatives, for changes in fair value.

On February 27, 2007, Ryder filed an automatic shelf registration statement on Form S-3 with the Securities and Exchange Commission. The registration is for an indeterminate number of securities and is effective for three years. Under this universal shelf registration statement, we have the capacity to offer and sell from time to time various types of securities, including common stock, preferred stock and debt securities, subject to market demand and ratings status.

(K) FAIR VALUE MEASUREMENTS

We carry various assets and liabilities at fair value in the Consolidated Condensed Balance Sheets. The most significant assets and liabilities are vehicles held for sale, which are carried at the lower of carrying value or fair value less costs to sell, investments held in Rabbi Trusts and derivatives. SFAS No. 157 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. SFAS No. 157 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices (unadjusted) in active markets for identical assets or liabilities that we have the ability to access at the measurement date. An active market for the asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or model-derived valuations or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 Unobservable inputs for the asset or liability. These inputs reflect our own assumptions about the assumptions a market participant would use in pricing the asset or liability.

The following tables present the fair value of our assets and liabilities recorded at fair value on a recurring basis segregated among the appropriate levels within the fair value hierarchy:

	Fair Value Measurements At March 31, 2009 Using			
	Level 1	**Level 2**	**Level 3**	**Total**
		(In thousands)		
Assets:				
Investments held in Rabbi Trusts	**$ 15,292**			**15,292**
Derivative asset		**17,119**		**17,119**
Total assets at fair value	**$ 15,292**	**17,119**		**32,411**

Liabilities:			
Derivative liabilities	$	**531**	**531**
Total liabilities at fair value	$	**531**	**531**

Table of Contents

RYDER SYSTEM, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)
(unaudited)

	Fair Value Measurements At December 31, 2008 Using			
	Level 1	Level 2	Level 3	Total
		(In thousands)		
Assets:				
Investments held in Rabbi Trusts	$ 16,950			16,950
Derivative asset		18,391		18,391
Total assets at fair value	$ 16,950	18,391		35,341
Liabilities:				
Derivative liabilities	$	607		607
Total liabilities at fair value	$	607		607

The following is a description of the valuation methodologies used for these items, as well as the general classification of such items pursuant to the fair value hierarchy of SFAS No. 157:

Investments held in Rabbi Trusts The investments include exchange-traded equity securities and mutual funds. Fair values for these investments were based on quoted prices in active markets and were therefore classified within Level 1 of the fair value hierarchy.

Derivative asset The derivative is a pay-variable, receive-fixed interest rate swap based on the LIBOR rate. Fair value was based on a model-driven valuation using the LIBOR rate, which was observable at commonly quoted intervals for the full term of the swap. Therefore, our derivative asset was classified within Level 2 of the fair value hierarchy.

Derivative liabilities The derivatives are forward foreign currency exchange contracts used to mitigate the risk of foreign currency movements on intercompany transactions. Fair value was based on a model-driven valuation using the observable forward foreign exchange rates, which was observable at commonly quoted intervals for the full term of the contracts. Therefore, our derivative liabilities were classified within Level 2 of the fair value hierarchy.

The following table presents the fair value of our assets and liabilities recorded at fair value on a nonrecurring basis segregated among the appropriate levels within the fair value hierarchy:

	Fair Value Measurements At March 31, 2009 Using			
	Level 1	**Level 2**	**Level 3**	**Total Gains (Losses)**
			(In thousands)	
Assets:				
Revenue earning equipment	**$**		**43,267**	**$ (12,729)**
Operating property and equipment			**10,590**	**(3,924)**
Total assets at fair value	**$**		**53,857**	**$ (16,653)**

The following is a description of the valuation methodologies used for these items, as well as the general classification of such items pursuant to the fair value hierarchy of SFAS No. 157:

Revenue earning equipment Represents revenue earning equipment held for sale which is stated at the lower of carrying amount or fair value less costs to sell. At March 31, 2009, the net carrying value of revenue earning equipment held for sale was $102.6 million, of which $43.3 million was recorded at fair value less costs to sell of $0.8 million. During the three months ended March 31, 2009 and 2008, we recorded a loss to reflect changes in fair value of $12.7 million and $7.2 million, respectively, within Depreciation expense in the Consolidated Condensed Statements of Earnings. At December 31, 2008, the net carrying value of revenue earning equipment held for sale was $93.8 million. For revenue earning equipment held for sale, we stratify our fleet by vehicle type (tractors, trucks, trailers), weight class, age and other relevant characteristics and create classes of similar assets for analysis purposes. Fair value was determined based upon recent market prices obtained from our own sales experience for sales of each class of similar assets and vehicle condition. Therefore, our revenue earning equipment held for sale was classified within Level 3 of the fair value hierarchy.

Operating property and equipment Represents a SCS facility held for use in Singapore for which the carrying amount was required to be written down to fair value of $10.6 million, resulting in an impairment loss of $3.9 million. Fair value was based on an appraisal of the facility based on observable market data and adjusted based on our projections of the real estate market in Singapore.

Table of Contents

RYDER SYSTEM, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)
(unaudited)

Therefore, operating property and equipment is classified within Level 3 of the fair value hierarchy. Refer to Note (Q), Other Items Impacting Comparability, for additional information on this facility.

(L) DERIVATIVES

At March 31, 2009 and December 31, 2008, the fair value and line item caption of derivative instruments recorded on the Consolidated Condensed Balance Sheets were as follows:

	March 31, 2009		December 31, 2008	
rivatives designated as hedging instruments under SFAS No. 133:	**Balance Sheet Location**	**Fair Value**	Balance Sheet Location	Fai Valu
		(In thousands)		
et derivatives:				
rest rate contract	**Direct finance leases and other assets**	**$ 17,119**	Direct finance leases and other assets	$ 18,3
		$ 17,119		$ 18,3
bility derivatives:				
eign exchange contracts	**Accrued expenses**	**$ 531**	Accrued expenses	$ 6
		$ 531		$ 6

The location and amount of gains (losses) on derivative instruments and related hedged items reported in the Consolidated Condensed Statements of Earnings were as follows:

SFAS No. 133 Fair Value Hedging Relationship	Location of Gain (Loss) Recognized in Income	Three months ended March 31, **2009**	2008
		(In thousands)	
Derivative: Interest rate contract	Interest expense	**$ 1,272**	5,941
Hedged item: Fixed-rate debt	Interest expense	**(1,272)**	(5,941)
Total		**$**	

(M) GUARANTEES

We have executed various agreements with third parties that contain standard indemnifications that may require us to indemnify a third party against losses arising from a variety of matters such as lease obligations, financing agreements, environmental matters, and agreements to sell business assets. In each of these instances, payment by Ryder is contingent on the other party bringing about a claim under the procedures outlined in the specific agreement. Normally, these procedures allow Ryder to dispute the other party s claim. Additionally, our obligations under these agreements may be limited in terms of the amount and (or) timing of any claim. We have entered into individual indemnification agreements with each of our independent directors, through which we will indemnify such director acting in good faith against any and all losses, expenses and liabilities arising out of such director s service as a director of Ryder. The maximum amount of potential future payments under these agreements is generally unlimited.

We cannot predict the maximum potential amount of future payments under certain of these agreements, including the indemnification agreements, due to the contingent nature of the potential obligations and the distinctive provisions that are involved in each individual agreement. Historically, no such payments made by Ryder have had a material adverse effect on our business. We believe that if a loss were incurred in any of these matters, the loss would not result in a material adverse impact on our consolidated results of operations or financial position.

Table of Contents

RYDER SYSTEM, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)
(unaudited)

At March 31, 2009 and December 31, 2008, the maximum determinable exposure of each type of guarantee and the corresponding liability, if any, recorded on the Consolidated Condensed Balance Sheets were as follows:

	March 31, 2009		December 31, 2008	
Guarantee	Maximum Exposure of Guarantee	Carrying Amount of Liability	Maximum Exposure of Guarantee	Carrying Amount of Liability
	(In thousands)			
Vehicle residual value guarantees finance lease programs [(1)]	**$ 2,182**	**970**	$ 2,332	935
Used vehicle financing	**4,058**	**321**	4,162	472
Standby letters of credit	**7,641**		7,778	
Total	**$ 13,881**	**1,291**	$ 14,272	1,407

(1) Amounts exclude contingent rentals associated with residual value guarantees on certain vehicles held under operating leases for which the guarantees are conditioned upon disposal of the leased vehicles prior to the end of their lease term. At March 31, 2009 and December 31, 2008, Ryder s maximum exposure for such guarantees was $184.2 million and

$200.0 million, respectively, with $2.7 million and $2.4 million recorded as a liability at March 31, 2009 and December 31, 2008, respectively.

At March 31, 2009 and December 31, 2008, we had letters of credit and surety bonds outstanding totaling $250.6 million and $249.2 million, respectively, which primarily guarantee the payment of insurance claims. Certain of these letters of credit and surety bonds guarantee insurance activities associated with insurance claim liabilities transferred in conjunction with the sale of our automotive transport business, reported as a discontinued operation in previous years. To date, the insurance claims, representing per-claim deductibles payable under third-party insurance policies, have been paid and continue to be paid by the company that assumed such liabilities. However, if all or a portion of the estimated outstanding assumed claims of approximately $7.6 million at March 31, 2009 are unable to be paid, the third-party insurers may have recourse against certain of the outstanding letters of credit provided by Ryder in order to satisfy the unpaid claim deductibles. In order to reduce our potential exposure to these claims, we have an irrevocable letter of credit from the purchaser of the business referred to above totaling $7.5 million at March 31, 2009. In April 2009, we drew upon this letter of credit. Periodically, an actuarial valuation is made in order to better estimate the amount of outstanding insurance claim liabilities.

(N) SHARE REPURCHASE PROGRAMS

In December 2007, our Board of Directors authorized a $300 million discretionary share repurchase program over a period not to exceed two years. Additionally, our Board of Directors authorized a separate two-year anti-dilutive repurchase program. Under the anti-dilutive program, management is authorized to repurchase shares of common stock in an amount not to exceed the lesser of the number of shares issued to employees upon the exercise of stock options or through the employee stock purchase plan from the period beginning on September 1, 2007 to December 12, 2009, or 2 million shares. Share repurchases of common stock under both plans may be made periodically in open-market transactions and are subject to market conditions, legal requirements and other factors. Management may establish prearranged written plans for the Company under Rule 10b5-1 of the Securities Exchange Act of 1934 as part of the December 2007 programs, which allow for share repurchases during Ryder s quarterly blackout periods as set forth in the trading plan. For the three months ended March 31, 2008, we repurchased and retired 840,000 shares under the $300 million program at an aggregate cost of $49.6 million, and 750,951 shares under the anti-dilutive repurchase program at an aggregate cost of $44.2 million. Towards the end of the third quarter of 2008, we temporarily paused purchases under both programs given current market conditions. We will continue to monitor financial conditions and will resume repurchases when we believe it is prudent to do so.

(O) COMPREHENSIVE INCOME

Comprehensive income presents a measure of all changes in shareholders equity except for changes resulting from transactions with shareholders in their capacity as shareholders. Our total comprehensive income presently consists of net earnings, currency translation adjustments associated with foreign operations that use the local currency as their functional currency, adjustments for derivative instruments accounted for as cash flow hedges and various pension and other postretirement benefits related items.

Table of Contents

RYDER SYSTEM, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)
(unaudited)

The following table provides a reconciliation of net earnings as reported in the Consolidated Condensed Statements of Earnings to comprehensive (loss) income.

	Three months ended March 31,	
	2009	2008
	(In thousands)	
Net earnings	$ **6,838**	56,082
Other comprehensive (loss) income:		
Foreign currency translation adjustments	**(20,877)**	(4,973)
Net unrealized gain on derivative instruments	**143**	6
Amortization of transition obligation [1]	**(4)**	(6)
Amortization of net actuarial loss [1]	**4,119**	1,048
Amortization of prior service credit [1]	**(372)**	(516)
Change in net actuarial loss [1]	**(144)**	
Total comprehensive (loss) income	$ **(10,297)**	51,641

(1) Amounts pertain to our pension and/or postretirement benefit plans and are presented net of tax. See Note (P), Employee Benefit Plans, for additional information.

(P) EMPLOYEE BENEFIT PLANS

Components of net periodic benefit cost were as follows:

	Pension Benefits		Postretirement Benefits	
	Three months ended March 31,			
	2009	2008	**2009**	2008
	(In thousands)			
Company-administered plans:				
Service cost	$ **5,360**	7,685	$ **385**	387
Interest cost	**23,080**	23,337	**741**	691
Expected return on plan assets	**(18,441)**	(30,689)		
Amortization of:				
Transition obligation	**(6)**	(8)		

Net actuarial loss	**6,160**	1,405	**216**	201
Prior service credit	**(528)**	(742)	**(58)**	(58)
	15,625	988	**1,284**	1,221
Union-administered plans	**1,287**	1,183		
Net periodic benefit cost	**$ 16,912**	2,171	**$ 1,284**	1,221
Company-administered plans:				
U.S.	**$ 13,027**	(913)	**$ 1,024**	983
Non-U.S.	**2,598**	1,901	**260**	238
	15,625	988	**1,284**	1,221
Union-administered plans	**1,287**	1,183		
	$ 16,912	2,171	**$ 1,284**	1,221

Pension Contributions

We disclosed in our 2008 Annual Report that we estimated contributions of approximately $100 million to our pension plans during 2009 including voluntary U.S. contributions of approximately $73 million. At the present time, we have decided not to make the voluntary contributions to our U.S. pension plan in light of recent changes to enacted funding laws and regulations, as well as those still being considered. Based on this decision and updates to international pension plan contributions, we now expect to contribute approximately $23 million to our pension plans during 2009. During the three months ended March 31, 2009, global contributions of $4 million had been made to our pension plans.

RYDER SYSTEM, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)
(unaudited)

Pension and Other Postretirement Benefits Asset and Liability

In July 2008, our Board of Directors approved an amendment to freeze the defined benefit portion of our Canadian retirement plan effective January 1, 2010 for current participants who do not meet certain grandfathering criteria. As a result, these employees will cease accruing further benefits under the defined benefit plan after January 1, 2010 and will begin receiving an enhanced benefit under the defined contribution portion of the plan. All retirement benefits earned as of January 1, 2010 will be fully preserved and will be paid in accordance with the plan and legal requirements. Employees hired after January 1, 2010 will not be eligible to participate in the Canadian defined benefit plan. The freeze of the Canadian defined benefit plan created a curtailment gain of $3.6 million (pre-tax) in the third quarter of 2008.

Enhanced 401(k) Plan

Effective January 1, 2008, employees who did not meet the grandfathering criteria for continued participation in U.S. pension plans are eligible to participate in a new enhanced 401(k) Savings Plan (Enhanced 401(k) Savings Plan). The Enhanced 401(k) Savings Plan provides for (i) a company contribution even if employees do not make contributions, (ii) a company match of employee contributions of eligible pay, subject to IRS limits and (iii) a discretionary company match based on our performance. Our original 401(k) Savings Plan only provided for a discretionary Ryder match based on Ryder s performance. We did not change the savings plans available to non-pensionable employees. During the three months ended March 31, 2009 and 2008, we recognized total savings plan costs of $6.1 million and $10.0 million, respectively.

(Q) OTHER ITEMS IMPACTING COMPARABILITY

Our primary measure of segment performance excludes certain items we do not believe are representative of the ongoing operations of the segment. We believe that excluding these items from our segment measure of performance allows for better comparison of results.

In the fourth quarter of 2008, we were notified that a significant customer in Singapore would not renew their contract, which was set to expire in 2009. The notification triggered an analysis under SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, which required us to assess the recoverability of the facility used in this customer s operation. During the fourth quarter of 2008, we recorded an impairment charge to reduce the carrying value of the facility to its fair value. Conditions in the real estate market in Singapore continued to deteriorate during the first quarter of 2009. As a result, we recorded an additional pre-tax impairment charge of $3.9 million to write-down the facility to its current fair value for the three months ended March 31, 2009. The charges were recorded within Depreciation expense in our Consolidated Condensed Statements of Earnings.

During the fourth quarter of 2008, a customer in the SCS business segment in the U.K. declared bankruptcy and we determined the outstanding finance lease receivable was not recoverable. During the first quarter of 2009, we revised our estimate of recoverability and recorded a $0.2 million pre-tax benefit within Operating expense in our Consolidated Condensed Statements of Earnings.

(R) SEGMENT REPORTING

Our operating segments are aggregated into reportable business segments based upon similar economic characteristics, products, services, customers and delivery methods. We operate in three reportable business segments: (1) FMS, which provides full service leasing, contract maintenance, contract-related maintenance and commercial rental of trucks, tractors and trailers to customers, principally in the U.S., Canada and the U.K.; (2) SCS, which provides comprehensive supply chain consulting including distribution and transportation services throughout North America and in South America, Europe and Asia; and (3) Dedicated Contract Carriage (DCC), which provides vehicles and drivers as part of a dedicated transportation solution in the U.S.

Our primary measurement of segment financial performance, defined as Net Before Taxes (NBT), includes an allocation of CSS and excludes restructuring and other charges (recoveries), net described in Note (F), Restructuring and Other Charges (Recoveries), and excludes the items discussed in Note (Q), Other Items Impacting Comparability. CSS represents those costs incurred to support all business segments, including human resources, finance, corporate services, public affairs, information technology, health and safety, legal and corporate communications. The objective of the NBT measurement is to provide clarity on the profitability of each business segment and, ultimately, to hold leadership of each business segment and each operating segment within each business segment accountable for their allocated share of CSS costs. Certain costs are considered to be overhead not attributable to any segment and remain unallocated in CSS. Included among the unallocated overhead remaining within CSS are the

RYDER SYSTEM, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)
(unaudited)

costs for investor relations, public affairs and certain executive compensation. CSS costs attributable to the business segments are predominantly allocated to FMS, SCS and DCC as follows:

Finance, corporate services, and health and safety allocated based upon estimated and planned resource utilization;

Human resources individual costs within this category are allocated in several ways, including allocation based on estimated utilization and number of personnel supported;

Information technology principally allocated based upon utilization-related metrics such as number of users or minutes of CPU time. Customer-related project costs and expenses are allocated to the business segment responsible for the project; and

Other represents legal and other centralized costs and expenses including certain share-based incentive compensation costs. Expenses, where allocated, are based primarily on the number of personnel supported.

Our FMS segment leases revenue earning equipment and provides fuel, maintenance and other ancillary services to the SCS and DCC segments. Inter-segment revenue and NBT are accounted for at rates similar to those executed with third parties. NBT related to inter-segment equipment and services billed to customers (equipment contribution) are included in both FMS and the business segment which served the customer and then eliminated (presented as Eliminations).

The following tables set forth financial information for each of Ryder s business segments and a reconciliation between segment NBT and earnings before income taxes for the three months ended March 31, 2009 and 2008. Segment results are not necessarily indicative of the results of operations that would have occurred had each segment been an independent, stand-alone entity during the periods presented.

	FMS	SCS	DCC	Eliminations	Total
			(In thousands)		
For the three months ended March 31, 2009					
Revenue from external customers	$ **790,557**	**297,477**	**115,026**		**1,203,060**
Inter-segment revenue	**72,079**			**(72,079)**	
Total revenue	$ **862,636**	**297,477**	**115,026**	**(72,079)**	**1,203,060**
Segment NBT	$ **30,406**	**(1,878)**	**10,267**	**(5,789)**	**33,006**
Unallocated CSS					**(6,927)**
Restructuring and other charges, net and other items(1)					**(7,928)**
Earnings before income taxes					$ **18,151**
Segment capital expenditures (2),(3)	$ **247,018**	**2,895**	**210**		**250,123**
Unallocated CSS					**1,910**

Capital expenditures					**$ 252,033**
March 31, 2008					
Revenue from external customers	$ 992,227	414,177	137,178		1,543,582
Inter-segment revenue	113,384			(113,384)	
Total revenue	$ 1,105,611	414,177	137,178	(113,384)	1,543,582
Segment NBT	$ 91,438	8,313	11,316	(7,518)	103,549
Unallocated CSS					(11,540)
Restructuring and other recoveries, net					78
Earnings before income taxes					$ 92,087
Segment capital expenditures (2), (3)	$ 255,474	14,590	395		270,459
Unallocated CSS					3,354
Capital expenditures					$ 273,813

(1) See Note (Q), Other Items Impacting Comparability, for a discussion of items, in addition to restructuring and other charges, net that are excluded from our primary measure of segment performance.

(2) Excludes revenue earning equipment acquired under capital leases.

(3)

Excludes acquisition payments of $85.5 million and $92.8 million during the three months ended March 31, 2009 and 2008, respectively.

Table of Contents

RYDER SYSTEM, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)
(unaudited)

We have a diversified portfolio of customers across a full array of transportation and logistics solutions and across many industries. We believe this will help to mitigate the impact of adverse downturns in specific sectors of the economy. Our portfolio of full service lease and commercial rental customers is not concentrated in any one particular industry or geographic region. Our largest customer, General Motors Corporation, accounted for approximately 3% and 5% of consolidated revenue for the three months ended March 31, 2009 and 2008, respectively, and is comprised of multiple contracts within our SCS business segment in various geographic regions. GM also accounted for approximately 13% and 18% of SCS total revenue for the three months ended March 31, 2009 and 2008, respectively. At March 31, 2009 and December 31, 2008, GM trade accounts receivable were $32.3 million or 7% and $42.1 million or 8%, respectively, of our trade accounts receivable.

(S) RECENT ACCOUNTING PRONOUNCEMENTS

In April 2009, the FASB issued FSP FAS 107-1 and APB 28-1, Interim Disclosures about Fair Value of Financial Instruments. The FSP amends SFAS No. 107, Disclosures about Fair Value of Financial Instruments to require disclosure about fair value of financial instruments in interim financial statements. FSP FAS 107-1 and APB 28-1 is effective for interim and annual periods ending after June 15, 2009 with early adoption permitted for periods ending after March 15, 2009. We will include the disclosures required under this FSP beginning in our June 30, 2009 Consolidated Condensed Financial Statements. The adoption of FSP FAS 107-1 and APB 28-1 will have no impact on our consolidated financial position, results of operations or cash flows.

In December 2008, the FASB issued FSP No. 132(R)-1, Employer s Disclosures about Postretirement Benefit Plan Assets. This FSP requires enhanced disclosures about plan assets of a defined benefit pension or other postretirement plan including information on investment policies and strategies, major categories of plan assets and fair value measurements. The disclosures required by this FSP are effective for financial statements issued for fiscal years ending after December 15, 2009 with early adoption permitted. We will include the enhanced disclosures required under this FSP beginning in our December 31, 2009 Form 10-K. The adoption of FSP No. 132(R)-1 will have no impact on our consolidated financial position, results of operations or cash flows.

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
THREE MONTHS ENDED MARCH 31, 2009 AND 2008

OVERVIEW

The following discussion should be read in conjunction with the unaudited Consolidated Condensed Financial Statements and notes thereto included under Item 1. In addition, reference should be made to our audited Consolidated Financial Statements and notes thereto and related Management s Discussion and Analysis of Financial Condition and Results of Operations included in the 2008 Annual Report on Form 10-K.

Ryder System, Inc. (Ryder) is a global leader in transportation and supply chain management solutions. Our business is divided into three business segments: Fleet Management Solutions (FMS), which provides full service leasing, contract maintenance, contract-related maintenance and commercial rental of trucks, tractors and trailers to customers principally in the U.S., Canada and the U.K.; Supply Chain Solutions (SCS), which provides comprehensive supply chain consulting including distribution and transportation services throughout North America and in South America, Europe and Asia; and Dedicated Contract Carriage (DCC), which provides vehicles and drivers as part of a dedicated transportation solution in the U.S. We operate in highly competitive markets. Our customers select us based on numerous factors including service quality, price, technology and service offerings. As an alternative to using our services, customers may choose to provide these services for themselves, or may choose to obtain similar or alternative services from other third-party vendors. Our customer base includes enterprises operating in a variety of industries including automotive, electronics, transportation, grocery, lumber and wood products, food service, and home furnishing. During the fourth quarter of 2008, we decided to discontinue operations in Brazil, Argentina, and Chile during 2009 and transition out of specific Supply Chain Solutions customer contracts in Europe. These operations will be reported as part of continuing operations in our Consolidated Condensed Financial Statements until all operations cease.

ITEMS AFFECTING COMPARABILITY BETWEEN PERIODS

Accounting Changes

See Note (B), Accounting Changes, for a discussion of the impact of changes in accounting standards.

ACQUISITIONS

We have completed various asset purchases in the past year, under which we acquired a company s fleet of vehicles and contractual customers. The FMS acquisitions operate under Ryder s name and complement our existing market coverage and service network. The results of these acquisitions have been included in our consolidated results since the dates of acquisition.

All acquisitions during 2009 and 2008 were as follows:

Company Acquired	Date	Vehicles	Contractual Customers	Market
Edart Leasing LLC	February 2, 2009	1,600	340	Northeast U.S.
Gordon Truck Leasing	August 29, 2008	500	130	Pennsylvania
Gator Leasing, Inc.	May 12, 2008	2,300	300	Florida
Lily Transportation Corp.	January 11, 2008	1,600	200	Northeast U.S.

On December 19, 2008, we completed the acquisition of substantially all of the assets of Transpacific Container Terminal Ltd. and CRSA Logistics Ltd. (CRSA) in Canada, as well as CRSA operations in Hong Kong and Shanghai, China. This strategic acquisition adds complementary solutions to our SCS capabilities including consolidation services in key Asian hubs, as well as deconsolidation operations in Vancouver, Toronto and Montreal.

Table of Contents

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

CONSOLIDATED RESULTS

	Three months ended March 31, 2009	2008	Change 2009/2008
	(In thousands, except per share amounts)		
Earnings before income taxes	$ **18,151**	92,087	(80)%
Provision for income taxes	**11,313**	36,005	(69)
Net earnings	$ **6,838**	56,082	(88)%
Per diluted common share (EPS)	$ **0.12**	0.96	(88)%
Weighted-average shares outstanding Diluted	**55,281**	57,973	(5)%

Earnings before income taxes in the first three months of 2009 decreased $73.9 million to $18.2 million compared with the same period in the prior year. The continued deterioration in global economic conditions in the first quarter of 2009 resulted in sharply lower earnings compared to the first quarter of 2008. Our results reflect continued declines in freight demand which has most significantly impacted our FMS business segment. In addition, automotive production volumes have reached significant lows, further impacting our SCS business segment. Earnings in the first quarter were also negatively impacted by a higher effective tax rate compared to the same period in 2008 due to non-deductible foreign operating losses and charges.

See Operating Results by Business Segment for a further discussion of operating results.

	Three months ended March 31, 2009	2008	Change 2009/2008
	(In thousands)		
Revenue:			
Fleet Management Solutions	$ **862,636**	1,105,611	(22)%
Supply Chain Solutions	**297,477**	414,177	(28)
Dedicated Contract Carriage	**115,026**	137,178	(16)
Eliminations	**(72,079)**	(113,384)	36
Total	$ **1,203,060**	1,543,582	(22)%
Operating revenue (1)	$ **1,008,064**	1,171,707	(14)%

(1) We use operating revenue, a non-GAAP financial measure, to evaluate the operating performance of our businesses and as a measure of sales activity. FMS fuel services revenue net of related intersegment billings, which is directly impacted by fluctuations in market fuel prices, is excluded from the operating revenue

computation as fuel is largely a pass-through to our customers for which we realize minimal changes in profitability during periods of steady market fuel prices. However, profitability may be positively or negatively impacted by rapid changes in market fuel prices during a short period of time as customer pricing for fuel services is established based on market fuel costs. Subcontracted transportation is deducted from total revenue to arrive at operating revenue as subcontracted transportation is typically a pass-through to our customers. We realize minimal changes in profitability as a result of fluctuations in subcontracted transportation. Operating revenue is also a primary internal operating metric used to measure segment performance. Refer to the section titled Non-GAAP Financial Measures for a reconciliation of total revenue to operating revenue.

22

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Total revenue decreased 22% to $1.20 billion in the first quarter of 2009 compared with the same period in 2008. The decline in total revenue was primarily due to lower fuel services revenue from lower fuel costs and gallons sold and lower operating revenue. Operating revenue decreased 14% in the first quarter of 2009 primarily due to lower automotive production volumes, an unfavorable impact from foreign exchange, lower SCS and DCC fuel revenues and lower commercial rental revenue. Operating revenue was negatively impacted by lower miles driven by existing customers and an increase in customers downsizing their lease fleets. Total revenue and operating revenue in the first quarter of 2009 both included an unfavorable foreign exchange impact of 4%, due primarily to the weakening of the Canadian dollar and British pound.

	Three months ended March 31,		Change
	2009	2008	2009/2008
	(Dollars in thousands)		
Operating expense (exclusive of items shown separately)	$ **544,466**	763,767	(29)%
Percentage of revenue	**45%**	49%	

Operating expense and operating expense as a percentage of revenue decreased in 2009 primarily as a result of lower average fuel costs. The reduction in fuel costs over the prior year was driven by the decline in fuel prices as well as a lower number of gallons purchased.

	Three months ended March 31,		Change
	2009	2008	2009/2008
	(Dollars in thousands)		
Salaries and employee-related costs	$ **310,258**	358,370	(13)%
Percentage of revenue	**26%**	23%	
Percentage of operating revenue	**31%**	31%	

Salaries and employee-related costs decreased in the first quarter of 2009 compared with the same period in 2008 because of lower headcount and foreign exchange impact. The lower headcount was driven by lower volumes in our SCS and DCC business segments and workforce reductions made as part of the restructuring initiatives announced in the fourth quarter of 2008. In addition, salaries and employee-related costs decreased because of lower incentive-based compensation, commissions and discretionary match into the 401(k) savings plan based on company performance. The decrease in salaries and employee-related costs was partially offset by a $14.7 million increase in pension expense caused by significant negative pension asset returns in 2008.

	Three months ended March 31,		Change
	2009	2008	2009/2008
	(Dollars in thousands)		
Subcontracted transportation	$ **52,620**	75,331	(30)%
Percentage of revenue	**4%**	5%	

Subcontracted transportation expense represents freight management costs on logistics contracts for which we purchase transportation from third parties. Subcontracted transportation expense is directly impacted by whether we are acting as an agent or principal in our transportation management contracts. To the extent that we are acting as a principal, revenue is reported on a gross basis and carriage costs to third parties are recorded as subcontracted transportation expense. The impact to net earnings is the same whether we are acting as an agent or principal in the arrangement. Subcontracted transportation expense decreased in 2009 compared with the same period in 2008 as a result of decreased freight volumes in the current economic environment.

	Three months ended March 31,		Change
	2009	2008	2009/2008
	(In thousands)		
Depreciation expense	$ **222,521**	205,960	8%
Gains on vehicle sales, net	**(3,973)**	(12,426)	(68)
Equipment rental	**15,607**	21,526	(27)

Depreciation expense relates primarily to FMS revenue earning equipment. Depreciation expense increased in the first quarter of 2009 compared with the same period in 2008, because of $5.5 million of increased write-downs in the carrying value of vehicles

Table of Contents

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

held for sale, the impact of recent acquisitions and an impairment charge of $3.9 million on a Singapore facility partially offset by the impact of foreign exchange rates. Revenue earning equipment held for sale is recorded at the lower of fair value less cost to sell or net carrying value. We stratify our fleet by vehicle type (tractors, trucks, trailers), weight class, age and other relevant characteristics and create classes of similar assets for analysis purposes. Fair value is determined based upon recent market prices obtained from our own sales experience for sales of each class of similar assets and vehicle condition.

Gains on vehicle sales, net decreased in the first quarter of 2009 compared with the same period in 2008 because of lower average pricing on vehicles sold and, to a lesser extent, a decline in the number of vehicles sold.

Equipment rental consists primarily of rent expense for FMS revenue earning equipment under lease. The decrease in equipment rental in the first quarter of 2009 compared with the same period in 2008 reflects a reduction in the average number of leased vehicles.

	Three months ended March 31,		Change
	2009	2008	2009/2008
	(Dollars in thousands)		
Interest expense	$ **38,807**	37,428	4%
Effective interest rate	**5.4%**	5.4%	

Interest expense increased in the first quarter of 2009 compared with the same period in 2008 because of higher average debt balances.

	Three months ended March 31,	
	2009	2008
	(In thousands)	
Miscellaneous expense, net	$ **418**	1,617

Miscellaneous expense, net consists of investment losses (income) on securities used to fund certain benefit plans, interest income, losses (gains) from sales of operating property, foreign currency transaction losses (gains), and other non-operating items. Miscellaneous expense, net decreased in the first quarter of 2009 compared with the same period in 2008, primarily due to lower losses in our investment securities over the prior year and lower foreign exchange losses.

	Three months ended March 31,	
	2009	2008
	(In thousands)	
Restructuring and other charges (recoveries), net	$ **4,185**	(78)

Restructuring and other charges (recoveries), net in the first three months of 2009 were primarily due to ongoing costs related to the restructuring plan initiatives announced in the fourth quarter of 2008. During the first quarter of 2009, we recorded $1.8 million related to exiting SCS operations in South America and Europe. These charges included $0.6 million of employee severance and benefit costs related to retention bonuses and refinements in estimates recorded in the prior year. The charges also included $0.3 million of contract termination costs and $0.9 million related to plan implementation costs, mostly professional service fees. We expect to exit our supply chain operations in South America and Europe by the latter half of 2009. During the first quarter of 2009, we also recorded

$2.4 million related to workforce reductions and refinements in estimates of prior year charges. We eliminated approximately 30 positions in 2009 as part of our continued cost containment initiatives. The workforce reductions were substantially completed during the first quarter of 2009. We expect to realize annual savings of approximately $5 million from the 2009 workforce reductions in addition to the annual savings of approximately $38 million from the 2008 actions.

Table of Contents

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

	Three months ended March 31, 2009	2008	Change 2009/2008
	(Dollars in thousands)		
Provision for income taxes	$ **11,313**	36,005	(69)%
Effective tax rate	**62.3%**	39.1%	

Our effective income tax rate for the first quarter of 2009 increased compared with the same period in 2008 due to non-deductible foreign operating losses and charges in the current year.

OPERATING RESULTS BY BUSINESS SEGMENT

	Three months ended March 31, 2009	2008	Change 2009/2008
	(In thousands)		
Revenue:			
Fleet Management Solutions	$ **862,636**	1,105,611	(22)%
Supply Chain Solutions	**297,477**	414,177	(28)
Dedicated Contract Carriage	**115,026**	137,178	(16)
Eliminations	**(72,079)**	(113,384)	36
Total	$ **1,203,060**	1,543,582	(22)%
Operating Revenue:			
Fleet Management Solutions	$ **692,318**	746,987	(7)%
Supply Chain Solutions	**247,147**	341,999	(28)
Dedicated Contract Carriage	**112,736**	134,025	(16)
Eliminations	**(44,137)**	(51,304)	14
Total	$ **1,008,064**	1,171,707	(14)%
NBT:			
Fleet Management Solutions	$ **30,406**	91,438	(67)%
Supply Chain Solutions	**(1,878)**	8,313	NM
Dedicated Contract Carriage	**10,267**	11,316	(9)
Eliminations	**(5,789)**	(7,518)	23
	33,006	103,549	(68)
Unallocated Central Support Services	**(6,927)**	(11,540)	40
Restructuring and other (charges) recoveries, net and other items	**(7,928)**	78	NM
Earnings before income taxes	$ **18,151**	92,087	(80)%

As part of management s evaluation of segment operating performance, we define the primary measurement of our segment financial performance as Net Before Taxes (NBT), which includes an allocation of Central Support Services (CSS), excludes restructuring and other charges, net, described in Note (F), Restructuring and Other Charges (Recoveries), and excludes the items discussed in Note (Q), Other Items Impacting Comparability. CSS represents those costs incurred to support all business segments, including human resources, finance, corporate services and public affairs, information technology, health and safety, legal and corporate communications. The objective of the NBT measurement is to provide clarity on the profitability of each business segment and, ultimately, to hold leadership of each business segment and each operating segment within each business segment accountable for their allocated share of CSS costs. Segment results are not necessarily indicative of the results of operations that would have occurred had each segment been an independent, stand-alone entity during the periods presented. Certain costs are considered to be overhead not attributable to any segment and remain unallocated in CSS. Included within the unallocated overhead remaining within CSS are the costs for investor relations, public affairs and certain executive compensation. See Note (R), Segment Reporting, in the Notes to Consolidated Condensed Financial Statements for a description of how the remainder of CSS costs are allocated to the business segments.

Table of Contents

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

The following table provides a reconciliation of items excluded from our segment NBT measure to their classification within our Consolidated Condensed Statements of Earnings:

Description	Consolidated Condensed Statements of Earnings Line Item (1)	Three months ended March 31, **2009**	2008
		(In thousands)	
Restructuring and other (charges) recoveries, net	Restructuring	**$ (4,185)**	78
International asset write-off	Operating expense	**181**	
International asset impairment	Depreciation expense	**(3,924)**	
Restructuring and other charges, net and other items		**$ (7,928)**	78

(1) Restructuring refers to Restructuring and other charges (recoveries), net on our Consolidated Condensed Statements of Earnings.

Our FMS segment leases revenue earning equipment and provides fuel, maintenance and other ancillary services to our SCS and DCC segments. Inter-segment revenue and NBT are accounted for at rates similar to those executed with third parties. NBT related to inter-segment equipment and services billed to customers (equipment contribution) are included in both FMS and the business segment which served the customer and then eliminated (presented as Eliminations).

The following table sets forth equipment contribution included in NBT for our SCS and DCC business segments:

	Three months ended March 31, **2009**	2008	Change 2009/2008
	(In thousands)		
Equipment contribution:			
Supply Chain Solutions	**$ 2,782**	4,135	(33)%
Dedicated Contract Carriage	**3,007**	3,383	(11)
Total	**$ 5,789**	7,518	(23)%

Fleet Management Solutions

Change

	Three months ended March 31, 2009	2008	2009/2008
	(Dollars in thousands)		
Full service lease	$ **491,674**	504,161	(2)%
Contract maintenance	**41,388**	40,637	2
Contractual revenue	**533,062**	544,798	(2)
Contract-related maintenance	**44,991**	51,710	(13)
Commercial rental	**99,210**	132,738	(25)
Other	**15,055**	17,741	(15)
Operating revenue [(1)]	**692,318**	746,987	(7)
Fuel services revenue	**170,318**	358,624	(53)
Total revenue	$ **862,636**	1,105,611	(22)%
Segment NBT	$ **30,406**	91,438	(67)%
Segment NBT as a % of total revenue	**3.5%**	8.3%	(480) bps
Segment NBT as a % of operating revenue [(1)]	**4.4%**	12.2%	(780) bps

(1) *We use operating revenue, a non-GAAP financial measure, to evaluate the operating performance of our FMS business segment and as a measure of sales activity. Fuel services revenue, which is directly impacted by fluctuations in market fuel prices, is excluded from our operating*

revenue computation as fuel is largely a pass-through to customers for which we realize minimal changes in profitability during periods of steady market fuel prices. However, profitability may be positively or negatively impacted by rapid changes in market fuel prices during a short period of time as customer pricing for fuel services is established based on market fuel costs.

Table of Contents

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Total revenue decreased 22% during the first quarter of 2009 compared with the same period in 2008 due primarily to lower fuel services revenue. Fuel services revenue decreased in 2009 due to lower fuel prices and reduced fuel volumes. Operating revenue (revenue excluding fuel) decreased 7% in the first quarter of 2009 compared with the same period in 2008 as the decline in commercial rental revenue, unfavorable foreign exchange impact, lower miles driven per unit and lower number of units earning revenue more than offset the contractual revenue growth from acquisitions. Total revenue and operating revenue in the first quarter of 2009 included an unfavorable foreign exchange impact of 3% and 4%, respectively.

Full service lease revenue decreased 2% in the first quarter of 2009 compared with the same period in 2008 reflecting a 4 percentage point unfavorable impact of foreign exchange rates. Excluding foreign exchange, full service lease revenue grew 2% as contractual revenue growth, primarily from acquisitions, was partially offset by lower variable revenue from fewer miles driven by our customers with their fleets and an increase in customer fleet downsizing actions. Contract maintenance revenue increased 2% in the first quarter of 2009 compared with the same period in 2008 due to contract sales in the prior year partially offset by lower variable revenue from fewer miles per vehicle driven by our customers. We expect similar contractual revenue comparisons to continue in the near term based on recent sales activity and the impact of the freight recession. Commercial rental revenue decreased 25% in the first quarter of 2009 compared with the same period in 2008. Weak economic conditions drove a decrease in global commercial rental demand and, to a lesser extent, contributed to a more aggressive pricing environment which led to a significant decline in revenue. We expect similar commercial rental revenue comparisons to continue in the near term based on recent market trends.

The following table provides commercial rental statistics on our global fleet:

	Three months ended March 31,		Change
	2009	2008	2009/2008
	(Dollars in thousands)		
Non-lease customer rental revenue	$ **55,993**	71,817	(22)%
Lease customer rental revenue (1)	$ **43,217**	60,921	(29)%
Average commercial rental power fleet size in service (2), (3)	**24,300**	24,600	(1)%
Commercial rental utilization power fleet	**61.3%**	68.7%	(740) bps

(1) Lease customer rental revenue is revenue from rental vehicles provided to our existing full service lease customers, generally during

peak periods in their operations.

(2) Number of units rounded to nearest hundred and calculated using quarterly average unit counts.

(3) Fleet size excluding trailers.

FMS NBT decreased $61.0 million in the first quarter of 2009 compared with the same period in 2008 primarily driven by the current economic slowdown and freight recession. This decrease in NBT was related to a decline in global commercial rental results, lower used vehicle sales results, higher pension expense and lower contractual business performance. These items were partially offset by cost reduction initiatives, including workforce reductions announced in the fourth quarter of 2008. Commercial rental results were impacted by weak global demand which drove lower utilization and, to a lesser extent, reduced pricing. Used vehicle sales results were also impacted by weak demand which drove lower pricing and volume, as well as higher inventory levels compared with the prior year period. Pension expense significantly increased in 2009 primarily because of poor performance in the overall stock market in 2008. Contractual business performance was adversely impacted by the protracted length and increased severity of the current freight recession which has resulted in reduced customer demand for new leases and an increased number of customers downsizing their fleets. Customers are also driving significantly fewer miles with their existing fleets, which lowers our variable revenue and fuel gallons sold.

Table of Contents

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Our global fleet of owned and leased revenue earning equipment and contract maintenance vehicles is summarized as follows (number of units rounded to the nearest hundred):

	March 31, 2009	December 31, 2008	March 31, 2008	Change Mar. 2009/ Dec. 2008	Change Mar. 2009/ Mar. 2008
End of period vehicle count					
By type:					
Trucks (1)	**69,200**	68,300	63,400	1%	9%
Tractors (2)	**52,700**	51,900	50,600	2	4
Trailers (3)	**39,300**	39,900	40,200	(2)	(2)
Other	**3,300**	3,400	7,100	(3)	(54)
Total	**164,500**	163,500	161,300	1%	2%
By ownership:					
Owned	**159,300**	158,200	155,500	1%	2%
Leased	**5,200**	5,300	5,800	(2)	(10)
Total	**164,500**	163,500	161,300	1%	2%
By product line:					
Full service lease	**121,700**	120,700	116,600	1%	4%
Commercial rental	**30,500**	32,300	34,600	(6)	(12)
Service vehicles and other	**2,800**	2,800	3,600		(22)
Active units	**155,000**	155,800	154,800	(1)	
Held for sale	**9,500**	7,700	6,500	23	46
Total	**164,500**	163,500	161,300	1%	2%
Customer vehicles under contract maintenance	**36,400**	35,500	32,400	3%	12%
Quarterly average vehicle count					
By product line:					
Full service lease	**121,100**	120,600	116,100	%	4%
Commercial rental	**31,400**	33,100	34,400	(5)	(9)
Service vehicles and other	**2,800**	2,800	3,500		(20)

Active units	**155,300**	156,500	154,000	(1)	1
Held for sale	**8,700**	6,600	7,000	32	24
Total	**164,000**	163,100	161,000	1%	2%
Customer vehicles under contract maintenance	**36,000**	34,900	32,000	3%	13%

(1) Generally comprised of Class 1 through Class 6 type vehicles with a Gross Vehicle Weight (GVW) up to 26,000 pounds.

(2) Generally comprised of over the road on highway tractors and are primarily comprised of Classes 7 and 8 type vehicles with a GVW of over 26,000 pounds.

(3) Generally comprised of dry, flatbed and refrigerated type trailers.

Note: Prior year vehicle counts have been reclassified to conform to current year presentation.

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

The following table provides a breakdown of our non-revenue earning equipment included in our global fleet count above (number of units rounded to nearest hundred):

	March 31 2009	December 31, 2008	March 31, 2008	Change Mar. 2009/ Dec. 2008	Change Mar. 2009/ Mar 2008
Not yet earning revenue (NYE)	**1,100**	1,500	2,200	(27)%	(50)%
No longer earning revenue (NLE):					
Units held for sale	**9,500**	7,700	6,500	23	46
Other NLE units	**4,500**	2,900	2,900	55	55
Total	**15,100**	12,100	11,600	25%	30%

NYE units represent new vehicles on hand that are being prepared for deployment to a lease customer or into the rental fleet. Preparations include activities such as adding lift gates, paint, decals, cargo area and refrigeration equipment. For 2009, the number of NYE units decreased compared with the same period in the prior year consistent with lower lease replacement activity. NLE units represent all vehicles held for sale and vehicles for which no revenue has been earned in the previous 30 days. For 2009, the number of NLE units increased compared with the prior year because of increased used vehicle inventory levels, lower rental utilization and increased customer downsizings of their lease fleets. We expect higher year over year NLE levels throughout the year.

Supply Chain Solutions

	Three months ended March 31, **2009**	Three months ended March 31, 2008	Change 2009/2008
	(Dollars in thousands)		
U.S. operating revenue:			
Automotive	**$ 79,113**	133,961	(41)%
High-Tech and Consumer	**52,297**	50,480	4
Industrial and Other	**40,996**	42,619	(4)
U.S. operating revenue	**172,406**	227,060	(24)
International operating revenue:			
South America and Europe	**18,744**	35,693	(47)
Other	**55,997**	79,246	(29)
International operating revenue	**74,741**	114,939	(35)
Total operating revenue [1]	**247,147**	341,999	(28)
Subcontracted transportation	**50,330**	72,178	(30)
Total revenue	**$ 297,477**	414,177	(28)%

Segment NBT	**$ (1,878)**	8,313	NM
Segment NBT as a % of total revenue	**(0.6)%**	2.0%	(260) bps
Segment NBT as a % of total operating revenue (1)	**(0.8)%**	2.4%	(320) bps
Memo: Fuel costs (2)	**$ 15,115**	40,448	(63)%

(1) We use operating revenue, a non-GAAP financial measure, to evaluate the operating performance of the SCS business segment and as a measure of sales activity. Subcontracted transportation is deducted from total revenue to arrive at operating revenue as subcontracted transportation is typically a pass-through to customers. We realize minimal changes in profitability as a result of fluctuations in subcontracted transportation. Operating revenue is also a primary internal operating metric and is used to measure

segment performance.

(2) *Fuel costs are largely a pass-through to customers and therefore have a direct impact on revenue.*

Total revenue and operating revenue decreased 28% in the first quarter of 2009 compared with the same period in 2008 as a result of lower automotive production volumes, including several plant shutdowns, unfavorable foreign exchange impact and lower fuel volume and fuel prices. In the first quarter of 2009, both SCS total revenue and operating revenue included an unfavorable foreign currency exchange impact of 6%. We expect unfavorable revenue comparisons to continue in the near term based on automotive production volumes as well as our previously announced plan to discontinue operations in South America and Europe. At the end of 2008, we announced that we were transitioning out of our operations in Brazil, Argentina, Chile and Europe.

Table of Contents

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Our largest customer, General Motors Corporation, accounted for approximately 13% of SCS total revenue and operating revenue, respectively, for the three months ended March 31, 2009, and is comprised of multiple contracts in various geographic regions. For the first three months of 2008, General Motors Corporation accounted for approximately 18% of SCS total revenue and operating revenue, respectively.

SCS NBT decreased $10.2 million in the three months ended March 31, 2009 compared with the same period in 2008 because of significantly reduced North America automotive volumes which decreased NBT by $7.2 million. SCS NBT also included a loss of $3.5 million related to operations in South America and Europe which will be discontinued by year-end.

Dedicated Contract Carriage

	Three months ended March 31,		Change
	2009	2008	2009/2008
	(Dollars in thousands)		
Operating revenue (1)	**$ 112,736**	134,025	(16)%
Subcontracted transportation	**2,290**	3,153	(27)
Total revenue	**$ 115,026**	137,178	(16)%
Segment NBT	**$ 10,267**	11,316	(9)%
Segment NBT as a % of total revenue	**8.9%**	8.2%	70 bps
Segment NBT as a % of operating revenue (1)	**9.1%**	8.4%	70 bps
Memo: Fuel costs (2)	**$ 16,029**	30,771	(48)%

(1) We use operating revenue, a non-GAAP financial measure, to evaluate the operating performance of the DCC business segment and as a measure of sales activity.

Subcontracted transportation is deducted from total revenue to arrive at operating revenue as subcontracted transportation is typically a pass-through to customers. We realize minimal changes in profitability as a result of fluctuations in subcontracted transportation. Operating revenue is also a primary internal operating metric and is used to measure segment performance.

(2) Fuel costs are largely a pass-through to customers and therefore have a direct impact on revenue.

Total revenue and operating revenue decreased in the first quarter of 2009 compared with the same period in 2008 as a result of lower fuel costs pass-throughs and lower volumes. We expect similar revenue comparisons to continue in the near term due to recent sales activity.

DCC NBT decreased 9% in the first quarter of 2009 compared with the same period in 2008 due to the decline in revenue and was partially offset by better operating performance and lower overhead spending.

Central Support Services

	Three months ended March 31,

- if the notes have been called for redemption; or

10

- if we make certain significant distributions to our class A common stock shareholders, we enter into specified corporate transactions or our class A common stock ceases to be listed on The Nasdaq Global Select Market and is not listed for trading on another U.S. national or regional securities exchange.

The 2027 Notes may be surrendered for conversion after November 15, 2026, and at any time prior to the close of business on the business day immediately preceding the maturity date regardless of whether any of the foregoing conditions have been satisfied. Upon a fundamental change, holders of the 2027 Notes may require us to repurchase for cash all or part of their notes at a repurchase price equal to 100.0% of the principal amount plus accrued and unpaid interest. Holders of the 2027 Notes will also have the right to require us to repurchase the notes for cash on May 15, 2010, May 15, 2017 and May 15, 2022 or any other such date to be determined by us at a repurchase price payable in cash equal to the aggregate principal amount plus accrued and unpaid interest (including contingent cash interest), if any, through the repurchase date. The 2027 Notes require us to settle the principal amount in cash and the conversion spread in cash or net shares at our option.

We are required to pay contingent cash interest to the holders of the 2027 Notes during any six-month period from May 15 to November 14 and from November 15 to May 14, commencing with the period beginning May 20, 2010 if the average note price for the applicable five trading day period equals 120% or more of the principal amount of such notes and in certain other circumstances. The amount of contingent cash interest payable per note in respect of any six-month period will equal 0.375% per year of the average note price for the applicable five trading day period. The 2027 Notes may not be redeemed prior to May 20, 2010 and may thereafter be redeemed by us at par.

On May 18, 2007, the underwriters of the notes exercised their option to purchase up to an additional aggregate $45.0 million principal amount of the 2027 Notes. The offering was made pursuant to our universal shelf registration statement previously filed with the Securities and Exchange Commission.

On June 11, 2007 and June 18, 2007, we partially redeemed $300.0 million and $45.0 million, respectively, of our existing 8.0% Senior Subordinated Notes, due 2012 (the 2012 Notes) at a redemption price of 104% of the principal amount of the 2012 Notes plus accrued and unpaid interest with net proceeds from the offering of the 2027 Notes and cash on hand. As of June 30, 2007, the face amount of the 2012 Notes outstanding was $273.3 million. As a result of the partial redemption, we recorded a loss from extinguishment of debt of $15.0 million representing the redemption premium and write-off of certain debt acquisition costs, a debt premium and an unamortized derivative asset.

6. DERIVATIVE INSTRUMENTS:

We enter into derivative instruments primarily for the purpose of reducing the impact of changing interest rates on our floating rate debt and to reduce the impact of changing fair market values on our fixed rate debt. We account for our derivative instruments under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities,* as amended.

As of June 30, 2007, we had two derivative instruments. Both of these instruments are interest rate swap agreements. One of these swap agreements, with a notional amount of $180.0 million and expiring on March 15, 2012, is accounted for as a fair value hedge; therefore, any changes in its fair market value are reflected as an adjustment to the carrying value of our 8.0% Senior Subordinated Notes, due 2012 which is the underlying debt being hedged. During 2006, the other interest rate swap agreement was undesignated as a fair value hedge due to a reassignment of the counterparty; therefore, any subsequent changes in the fair market value are reflected as an adjustment to income. The notional amount of this swap agreement is $120.0 million and it expires on March 15, 2012. The interest we pay on the $180.0 million interest rate swap agreement is floating based on the three-month London Interbank Offered Rate (LIBOR) plus 2.28% and the interest we receive is 8.0%. The $120.0 million swap is structured identically with the exception of a difference in the interest spread where it is 2.35%. The fair market value of these agreements is estimated by obtaining quotations from the international financial institution which is a party to the contract. The fair value is an estimate of the net amount that we would pay on the balance sheet date if we cancelled the contracts or transferred them to other parties and includes net accrued interest receivable or payable. This amount was a net asset of $4.8 million and $5.7 million as of June 30, 2007 and December 31, 2006, respectively.

During May 2003, we completed an issuance of $150.0 million aggregate principal amount of 4.875% Convertible Senior Notes, due 2018. During May 2007, we completed an issuance of $345.0 million aggregate principal amount of 3.0% Convertible Senior Notes, due 2027. Under certain circumstances, we will pay contingent cash interest to the holders of convertible notes commencing on January 15, 2011 and May 20, 2010 for the 4.875% Notes and 3.0% Notes, respectively. The contingent cash interest feature for both issuances are embedded derivatives which have a negligible fair value as of June 30, 2007.

7. INCOME TAXES AND CHANGE IN ACCOUNTING PRINCIPLE:

Our income tax provision for all periods consists of federal and state income taxes. The tax provision for the three and six months ended June 30, 2007 is based on the estimated effective tax rate applicable for the full year, which is expected to be 41.6%. Our effective income tax rate differs from the federal statutory rate of 35% and can vary from period to period due to fluctuations in operating results, new or revised tax legislation and accounting pronouncements, state taxes, changes in the valuation of deferred tax assets and liabilities, accruals related to contingent tax liabilities and the results of audits and examinations of previously filed tax returns. Both the second quarter and estimated annual 2007 effective rates are different from the statutory rate due primarily to the impact of state income taxes, certain items not deductible for tax purposes, new state tax legislation and our contingent tax liability accrual.

We adopted the provisions of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48) on January 1, 2007. The adoption of FIN 48 did not cause a material change to our contingent liability for unrecognized tax benefits. We decreased the January 1, 2007 balance of retained earnings by $0.6 million to apply the cumulative effect of FIN 48 adoption. As of the date of adoption, we had $32.9 million of gross unrecognized tax benefits. Of this total, $17.6 million (net of federal effect on state tax issues) and $7.8 million (net of federal effect on state tax issues) represent the amounts of unrecognized tax benefits that, if recognized, would favorably affect our effective tax rates from continuing operations and discontinued operations, respectively. At June 30, 2007, we had $32.2 million of gross unrecognized tax benefits. Of this total, $17.4 million (net of federal effect on state tax issues) and $7.4 million (net of federal effect on state tax issues) represent the amounts of unrecognized tax benefits that, if recognized, would favorably affect our effective tax rates from continuing operations and discontinued operations, respectively.

We recognize accrued interest and penalties related to unrecognized tax benefits in income tax expense. We had $6.7 million and $0 accrued for interest and penalties, respectively, at January 1, 2007. We recognized $0.4 million and $1.1 million of income tax expense for interest related to uncertain tax positions during the three and six months ended June 30, 2007, respectively.

We are subject to U.S. federal income tax as well as income tax of multiple state jurisdictions. All of our 2003 and subsequent federal and state tax returns remain subject to examination by various tax authorities. Some of our pre-2003 state tax returns may also be subject to examination. In addition, several of our subsidiaries are currently under state examinations for various years. We do not anticipate the resolution of these matters will result in a material change to our consolidated financial statements. In addition, it is reasonably possible that various state statutes of limitations could expire by June 30, 2008. Such expirations, if any, could result in a reduction of the total amounts of unrecognized tax benefits by up to $3.9 million.

8. EARNINGS PER SHARE:

The following table reconciles income (numerator) and shares (denominator) used in our computations of earnings per share for the three months and six months ended June 30, 2007 and 2006 (in thousands):

	Three Months Ended June 30, 2007	Three Months Ended June 30, 2006	Six Months Ended June 30, 2007	Six Months Ended June 30, 2006
Income (Numerator)				
Income (loss) from continuing operations	$ 1,826	$ 10,793	$ (424)	$ 17,869
Income (loss) from discontinued operations, including gain on sale of broadcast assets related to discontinued operations	371	(510)	232	2,432
Net income (loss)	$ 2,197	$ 10,283	$ (192)	$ 20,301
Shares (Denominator)				
Weighted-average common shares outstanding	87,122	85,692	86,634	85,593
Dilutive effect of outstanding stock options and restricted stock	160	42		41
Weighted-average common and common equivalent shares outstanding	87,282	85,734	86,634	85,634

We applied the treasury stock method to measure the dilutive effect of our outstanding stock options and restricted stock awards and include the respective common share equivalents in the denominator of the diluted EPS computation. For the six months ended June 30, 2007, our outstanding stock options and restricted stock and for each of the three and six months ended June 30, 2007 and 2006, our 6% Convertible Debentures, due 2012 and 4.875% Convertible Senior Notes, due 2018 were anti-dilutive; therefore, they were not included in the computation of diluted EPS. For each of the three and six months ended June 30, 2007, our 3% Convertible Senior Notes, due 2027 and issued May 2007 were excluded from our diluted EPS computation since our average stock price was less than the conversion price. For each of the three and six months ended June 30, 2007, the outstanding SARS were excluded from our diluted EPS computation since our average stock price was less than the grant date base value of the SARS.

9. RELATED PERSON TRANSACTIONS:

David, Frederick, Duncan and Robert Smith (collectively, the controlling shareholders) are brothers and hold substantially all of the Class B Common Stock.

Certain assets used by us and our operating subsidiaries are leased from Cunningham Communications Inc., Keyser Investment Group, Gerstell Development Limited Partnership and Beaver Dam, LLC (entities owned by the controlling shareholders). Lease payments made to these entities were $1.3 million and $1.2 million for the three months ended June 30, 2007 and 2006, respectively. Lease payments made to these entities were $2.6 million and $2.3 million for the six months ended June 30, 2007 and 2006, respectively.

In January 1999, we entered into a local marketing agreement (LMA) with Bay Television, Inc. (Bay TV), which owns the television station WTTA-TV in Tampa, Florida. Our controlling shareholders own a substantial portion of the equity of Bay TV. The LMA provides that we deliver television programming to Bay TV, which broadcasts the programming in return for a monthly fee to Bay TV of $143,500. We must also make an annual payment equal to 50% of the adjusted annual broadcast cash flow of the station (as defined in the LMA) that is in excess of $1.7 million. An additional payment of $1.8 million was made during the six months ended June 30, 2007 related to the excess adjusted broadcast cash flow for the year ended December 31, 2006. Lease payments made to Bay TV were $0.4 million for each of the three months ended June 30, 2007 and 2006 and $0.9 million for each of the six months ended June 30, 2007 and 2006.

David D. Smith, our President and Chief Executive Officer, has a controlling interest in Atlantic Automotive and is a member of the Board of Directors. Atlantic Automotive Corporation is a holding company which owns automobile dealerships and a leasing company. We sold advertising time to Atlantic Automotive on our stations in Baltimore, Maryland and Norfolk, Virginia and received payments totaling $0.1 million and $0.3 million during the three months and six months ended June 30, 2007, respectively. We received payments totaling $0.1 million and $0.2 million during the three months and six months ended June 30, 2006, respectively. We purchased a total of $0.3 million and $0.5 million in vehicles and related vehicle services from Atlantic Automotive during the three and six months ended June 30, 2007, respectively. We purchased a total of $0.3 million and $0.7 million in vehicles and related vehicle services from Atlantic Automotive during the three and six months ended June 30, 2006, respectively.

10. DISCONTINUED OPERATIONS:

WEMT Disposition

On May 16, 2005, we entered into an agreement to sell WEMT-TV in Tri-Cities, Tennessee, including the FCC license (the broadcast license) to an unrelated third party for $7.0 million. On the same day, we completed the sale of the WEMT non-license television broadcast assets for $5.6 million of the total $7.0 million sales price and recorded a deferred gain of $3.2 million, which is stated separately on the December 31, 2005 consolidated balance sheet. The FCC approved the transfer of the broadcast license to the unrelated third party and we completed the sale of the license assets, including the broadcast license, on February 8, 2006 for a cash price of approximately $1.4 million. We recorded $1.8 million, net of $0.9 million in taxes, as gain from discontinued operations in our consolidated statements of operations for the quarter ended March 31, 2006. The gain is comprised of the previously deferred gain of $2.1 million and the loss of $0.3 million from the sale of the license assets, net of taxes, respectively. The net cash proceeds were used in the normal course of operations and for capital expenditures.

Other

During the three months and six months ended June 30, 2007, we recognized a $0.4 million and $0.2 million tax benefit, respectively, relating to an adjustment of certain state tax contingencies.

11. SEGMENT DATA:

We have one reportable operating segment, Broadcast , that is disclosed separately from our corporate and other business activities. Corporate and Other primarily includes our costs to operate as a public company and to operate our corporate headquarters location, our investment activity and our other operating divisions activities. Currently, our other operating divisions primarily earn revenues from internet technology and transmitter manufacturing. Transactions between our operating segment and Corporate and Other are not material.

Financial information for our operating segment is included in the following tables for the three and six months ended June 30, 2007 and 2006 (in thousands):

For the three months ended June 30, 2007	Broadcast	Corporate and Other	Consolidated
Revenue	$ 177,192	$ 3,473	$ 180,665
Depreciation of property and equipment	11,098	534	11,632
Amortization of definite-lived intangible assets and other assets	4,365		4,365
Amortization of program contract costs and net realizable value adjustments	23,108		23,108
General and administrative overhead expenses	1,582	5,845	7,427
Operating income (loss)	48,943	(7,084)	41,859
Loss from equity and cost method investments		(880)	(880)

For the three months ended June 30, 2006	Broadcast	Corporate and Other	Consolidated
Revenue	$ 177,400	$ 7,692	$ 185,092
Depreciation of property and equipment	12,127	559	12,686
Amortization of definite-lived intangible assets and other assets	4,435		4,435
Amortization of program contract costs and net realizable value adjustments	22,683		22,683
General and administrative overhead expenses	2,082	4,031	6,113
Operating income (loss)	51,985	(4,804)	47,181
Income from equity and cost method investments		36	36

For the six months ended June 30, 2007	Broadcast	Corporate and Other	Consolidated
Revenue	$ 341,160	$ 6,360	$ 347,520
Depreciation of property and equipment	21,454	1,075	22,529
Amortization of definite-lived intangible assets and other assets	8,732		8,732
Amortization of program contract costs and net realizable value adjustments	44,492		44,492
General and administrative overhead expenses	3,470	9,921	13,391
Operating income (loss)	91,643	(12,456)	79,187
Loss from equity and cost method investments		(892)	(892)

For the six months ended June 30, 2006	Broadcast	Corporate and Other	Consolidated
Revenue	$ 337,130	$ 11,429	$ 348,559
Depreciation of property and equipment	23,874	1,099	24,973
Amortization of definite-lived intangible assets and other assets	8,760		8,760
Amortization of program contract costs and net realizable value adjustments	41,306		41,306
General and administrative overhead expenses	3,923	7,996	11,919
Operating income (loss)	92,265	(9,728)	82,537
Income from equity and cost method investments		6,135	6,135

12. CONDENSED CONSOLIDATING FINANCIAL STATEMENTS:

Sinclair Television Group, Inc. (STG), a wholly owned subsidiary of Sinclair Broadcast Group, Inc. (SBG), is the primary obligor under our existing Bank Credit Agreement, as amended, the 8.75% Senior Subordinated Notes, due 2011, which were redeemed in full on January 22, 2007, and the 8% Senior Subordinated Notes, due 2012. Our Class A Common Stock, Class B Common Stock, the 6.0% Convertible Debentures, due 2012, the 4.875% Convertible Senior Notes, due 2018 and the 3.0% Convertible Senior Notes, due 2027 remain obligations or securities of SBG and are not obligations or securities of STG.

SBG, KDSM, LLC, a wholly-owned subsidiary of SBG, and STG s wholly-owned subsidiaries (guarantor subsidiaries), have fully and unconditionally guaranteed all of STG s obligations. Those guarantees are joint and several. There are certain contractual restrictions on the ability of SBG, STG or KDSM, LLC to obtain funds from their subsidiaries in the form of dividends or loans.

The following condensed consolidating financial statements present the consolidated balance sheets, consolidated statements of operations and consolidated statements of cash flows of SBG, STG, KDSM, LLC and the guarantor subsidiaries, the direct and indirect non-guarantor subsidiaries of SBG and the eliminations necessary to arrive at our information on a consolidated basis. These statements are presented in accordance with the disclosure requirements under Securities and Exchange Commission Regulation S-X, Rule 3-10.

15

CONDENSED CONSOLIDATING BALANCE SHEET
AS OF JUNE 30, 2007
(in thousands) (unaudited)

	Sinclair Broadcast Group, Inc.	Sinclair Television Group, Inc.	Guarantor Subsidiaries and KDSM, LLC	Non-Guarantor Subsidiaries	Eliminations	Sinclair Consolidated
Cash	$	$ 2,806	$ 3,434	$ 2,941	$	$ 9,181
Accounts and other receivables	17,100	43,324	79,353	10,518	(3,866)	146,429
Other current assets	2,877	5,101	52,244	6,359	(724)	65,857
Total current assets	19,977	51,231	135,031	19,818	(4,590)	221,467
Property and equipment, net	6,816	1,529	253,645	25,866	(24,135)	263,721
Investment in consolidated subsidiaries	866,983	1,411,973			(2,278,956)	
Other long-term assets	31,660	48,283	34,516	12,235	(51,387)	75,307
Total other long-term assets	898,643	1,460,256	34,516	12,235	(2,330,343)	75,307
Acquired intangible assets		24,555	1,532,149	57,014	8,569	1,622,287
Total assets	$ 925,436	$ 1,537,571	$ 1,955,341	$ 114,933	$ (2,350,499)	$ 2,182,782
Accounts payable and accrued liabilities	$ 20,123	$ 10,980	$ 41,846	$ 50,910	$ (43,470)	$ 80,389
Current portion of long-term debt	1,413	5,000	2,775	39,747	(1,690)	47,245
Other current liabilities			69,426	324		69,750
Total current liabilities	21,536	15,980	114,047	90,981	(45,160)	197,384
Long-term debt	629,743	612,056	63,759	41,468	(36,292)	1,310,734
Other liabilities	6,882	41,284	365,691	6,590	(2,779)	417,668
Total liabilities	658,161	669,320	543,497	139,039	(84,231)	1,925,786
Common stock	873		11	761	(772)	873
Additional paid-in capital	613,581	612,865	843,615	65,653	(1,522,135)	613,579
(Accumulated deficit) retained earnings	(347,179)	255,386	570,574	(92,540)	(741,341)	(355,100)
Accumulated other comprehensive income (loss)			(2,356)	2,020	(2,020)	(2,356)
Total shareholders equity	267,275	868,251	1,411,844	(24,106)	(2,266,268)	256,996
Total liabilities and shareholders equity	$ 925,436	$ 1,537,571	$ 1,955,341	$ 114,933	$ (2,350,499)	$ 2,182,782

16

CONDENSED CONSOLIDATING BALANCE SHEET
AS OF DECEMBER 31, 2006
(in thousands)

	Sinclair Broadcast Group, Inc.	Sinclair Television Group, Inc.	Guarantor Subsidiaries and KDSM, LLC	Non-Guarantor Subsidiaries	Eliminations	Sinclair Consolidated
Cash	$	$ 62,252	$ 2,788	$ 2,368	$	$ 67,408
Accounts and other receivables	8,636	28,863	89,387	9,135	(2,157)	133,864
Other current assets	4,770	8,278	75,679	3,795	(3,447)	89,075
Total current assets	13,406	99,393	167,854	15,298	(5,604)	290,347
Property and equipment, net	7,771	1,135	265,962	25,005	(24,911)	274,962
Investment in consolidated subsidiaries	540,684	1,442,423			(1,983,107)	
Other long-term assets	25,795	35,391	52,325	13,299	(42,574)	84,236
Total other long-term assets	566,479	1,477,814	52,325	13,299	(2,025,681)	84,236
Acquired intangible assets		24,555	1,542,550	46,300	8,630	1,622,035
Total assets	$ 587,656	$ 1,602,897	$ 2,028,691	$ 99,902	$ (2,047,566)	$ 2,271,580
Accounts payable and accrued liabilities	$ 17,041	$ 20,939	$ 50,404	$ 50,262	$ (44,102)	$ 94,544
Current portion of long-term debt	1,337	64,400	3,013	34,358	(858)	102,250
Other current liabilities			87,632	502		88,134
Total current liabilities	18,378	85,339	141,049	85,122	(44,960)	284,928
Long-term debt	283,830	962,701	64,842	28,570	(28,570)	1,311,373
Other liabilities	6,438	20,854	380,051	5,901	(4,610)	408,634
Total liabilities	308,646	1,068,894	585,942	119,593	(78,140)	2,004,935
Common stock	859		11	761	(772)	859
Additional paid-in capital	596,667	295,400	922,888	68,604	(1,286,892)	596,667
(Accumulated deficit) retained earnings	(318,516)	238,603	522,325	(89,310)	(681,508)	(328,406)
Accumulated other comprehensive income (loss)			(2,475)	254	(254)	(2,475)
Total shareholders equity	279,010	534,003	1,442,749	(19,691)	(1,969,426)	266,645
Total liabilities and shareholders equity	$ 587,656	$ 1,602,897	$ 2,028,691	$ 99,902	$ (2,047,566)	$ 2,271,580

17

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS
FOR THE THREE MONTHS ENDED JUNE 30, 2007
(in thousands) (unaudited)

	Sinclair Broadcast Group, Inc.	Sinclair Television Group, Inc.	Guarantor Subsidiaries and KDSM, LLC	Non-Guarantor Subsidiaries	Eliminations	Sinclair Consolidated
Net revenue	$	$	$ 177,809	$ 5,755	$ (2,899)	$ 180,665
Program and production		343	41,221		(2,285)	39,279
Selling, general and administrative	5,746	1,364	33,885	1,123	(54)	42,064
Depreciation, amortization and other operating expenses	514	87	52,575	4,667	(380)	57,463
Total operating expenses	6,260	1,794	127,681	5,790	(2,719)	138,806
Operating (loss) income	(6,260)	(1,794)	50,128	(35)	(180)	41,859
Equity in earnings of subsidiaries	13,185	23,330			(36,515)	
Interest income (loss)	516	1,644		25	(484)	1,701
Interest expense	(6,902)	(16,834)	(1,563)	(1,631)	1,043	(25,887)
Other (expense) income	(3,221)	3,951	(16,690)	(783)	(299)	(17,042)
Total other income (expense)	3,578	12,091	(18,253)	(2,389)	(36,255)	(41,228)
Income tax (provision) benefit	5,170	4,695	(9,179)	509		1,195
Income from discontinued operations, net of taxes			371			371
Net income (loss)	$ 2,488	$ 14,992	$ 23,067	$ (1,915)	$ (36,435)	$ 2,197

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS
FOR THE THREE MONTHS ENDED JUNE 30, 2006
(in thousands) (unaudited)

	Sinclair Broadcast Group, Inc.	Sinclair Television Group, Inc.	Guarantor Subsidiaries and KDSM, LLC	Non-Guarantor Subsidiaries	Eliminations	Sinclair Consolidated
Net revenue	$	$	$ 178,000	$ 9,834	$ (2,742)	$ 185,092
Program and production		417	38,871		(2,203)	37,085
Selling, general and administrative	4,146	1,630	34,367	718	(115)	40,746
Depreciation, amortization and other operating expenses	538	80	51,560	8,391	(489)	60,080
Total operating expenses	4,684	2,127	124,798	9,109	(2,807)	137,911
Operating (loss) income	(4,684)	(2,127)	53,202	725	65	47,181
Equity in earnings of subsidiaries	14,034	23,649			(37,683)	
Interest income	168	303		1	(168)	304
Interest expense	(5,124)	(21,453)	(1,416)	(1,364)	732	(28,625)
Other income (expense)	4,363	634	(4,727)	193	(32)	431
Total other income (expense)	13,441	3,133	(6,143)	(1,170)	(37,151)	(27,890)
Income tax benefit (provision)	1,690	7,916	(17,832)	(272)		(8,498)

Income from discontinued operations, net of taxes			(510)			(510)
Net income (loss)	$ 10,447	$ 8,922	$ 28,717	$ (717)	$ (37,086)	$ 10,283

18

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS
FOR THE SIX MONTHS ENDED JUNE 30, 2007
(in thousands) (unaudited)

	Sinclair Broadcast Group, Inc.	Sinclair Television Group, Inc.	Guarantor Subsidiaries and KDSM, LLC	Non-Guarantor Subsidiaries	Eliminations	Sinclair Consolidated
Net revenue	$	$	$ 342,387	$ 10,833	$ (5,700)	$ 347,520
Program and production		697	79,647		(4,439)	75,905
Selling, general and administrative	9,751	3,113	67,427	2,132	(117)	82,306
Depreciation, amortization and other operating expenses	1,028	170	100,874	8,951	(901)	110,122
Total operating expenses	10,779	3,980	247,948	11,083	(5,457)	268,333
Operating (loss) income	(10,779)	(3,980)	94,439	(250)	(243)	79,187
Equity in earnings of subsidiaries	14,438	48,285			(62,723)	
Interest income	728	2,027	3	27	(696)	2,089
Interest expense	(12,051)	(35,958)	(3,096)	(2,980)	1,816	(52,269)
Other income (expense)	1,145	(10,656)	(20,348)	(1,009)	(601)	(31,469)
Total other income (expense)	4,260	3,698	(23,441)	(3,962)	(62,204)	(81,649)
Income tax benefit	6,921	17,118	(22,983)	982		2,038
Income from discontinued operations, net of taxes			232			232
Net income (loss)	$ 402	$ 16,836	$ 48,247	$ (3,230)	$ (62,447)	$ (192)

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS
FOR THE SIX MONTHS ENDED JUNE 30, 2006
(in thousands) (unaudited)

	Sinclair Broadcast Group, Inc.	Sinclair Television Group, Inc.	Guarantor Subsidiaries and KDSM, LLC	Non-Guarantor Subsidiaries	Eliminations	Sinclair Consolidated
Net revenue	$	$	$ 338,286	$ 15,927	$ (5,654)	$ 348,559
Program and production		816	78,597		(4,219)	75,194
Selling, general and administrative	8,223	3,568	67,676	1,410	(178)	80,699
Depreciation, amortization and other operating expenses	1,058	648	96,403	13,257	(1,237)	110,129
Total operating expenses	9,281	5,032	242,676	14,667	(5,634)	266,022
Operating (loss) income	(9,281)	(5,032)	95,610	1,260	(20)	82,537
Equity in earnings of subsidiaries	24,103	47,925			(72,028)	
Interest income	325	348		2	(325)	350
Interest expense	(10,284)	(44,014)	(2,837)	(2,644)	1,444	(58,335)
Other income (expense)	14,332	4,825	(10,131)	(95)	(555)	8,376
Total other income (expense)	28,476	9,084	(12,968)	(2,737)	(71,464)	(49,609)
Income tax benefit (provision)	1,573	15,348	(32,070)	90		(15,059)
Income from discontinued operations, net of taxes			658			658
Gain from sale of discontinued operations, net of taxes			1,774			1,774

Net income (loss)	$ 20,768	$ 19,400	$ 53,004	$ (1,387)	$ (71,484)	$ 20,301

19

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2007
(in thousands) (unaudited)

	Sinclair Broadcast Group, Inc.	Sinclair Television Group, Inc.	Guarantor Subsidiaries and KDSM, LLC	Non-Guarantor Subsidiaries	Eliminations	Sinclair Consolidated
NET CASH FLOWS (USED IN) FROM OPERATING ACTIVITIES	$ (13,551)	$ (36,869)	$ 88,874	$ 975	$ 823	$ 40,252
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES:						
Acquisition of property and equipment	(40)	(567)	(8,945)	(410)		(9,962)
Payment for acquisition of an other operating divisions company				(15,997)		(15,997)
Distributions from investments	720					720
Proceeds from sale of property			12			12
Loans to affiliates	(79)					(79)
Proceeds from loans to affiliates	79					79
Net cash flows from (used in) investing activities	680	(567)	(8,933)	(16,407)		(25,227)
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES:						
Proceeds from notes payable, commercial bank financing and capital leases	345,000	317,000		9,700		671,700
Repayments of notes payable, commercial bank financing and capital leases	(92)	(725,900)	(91)			(726,083)
Proceeds from exercise of stock options	13,696					13,696
Payments for deferred financing costs	(6,573)	(119)		(64)		(6,756)
Increase (decrease) in intercompany payables	(314,812)	395,009	(77,511)	(1,185)	(1,501)	
Dividends paid on Class A and Class B Common Stock	(23,794)				232	(23,562)
Repayments of notes and capital leases to affiliates	(554)	(8,000)	(1,693)	7,554	446	(2,247)
Net cash flows from (used in) financing activities	12,871	(22,010)	(79,295)	16,005	(823)	(73,252)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		(59,446)	646	573		(58,227)
CASH AND CASH EQUIVALENTS, beginning of period		62,252	2,788	2,368		67,408
CASH AND CASH EQUIVALENTS, end of period	$	$ 2,806	$ 3,434	$ 2,941	$	$ 9,181

20

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2006
(in thousands) (unaudited)

	Sinclair Broadcast Group, Inc.	Sinclair Television Group, Inc.	Guarantor Subsidiaries and KDSM, LLC	Non-Guarantor Subsidiaries	Eliminations	Sinclair Consolidated
NET CASH FLOWS (USED IN) FROM OPERATING ACTIVITIES	$ 3,795	$ (19,984)	$ 70,591	$ 5,685	$ (296)	$ 59,791
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES:						
Acquisition of property and equipment	(224)	(8)	(9,257)	(41)	(6)	(9,536)
Payment for acquisition of television stations			(1,710)			(1,710)
Investments in equity and cost method investees			(131)			(131)
Proceeds from the sale of property			1,376			1,376
Proceeds from the sale of broadcast assets related to discontinued operations			1,400			1,400
Loans to affiliates	(71)					(71)
Proceeds from loans to affiliates	69					69
Net cash flows (used in) from investing activities	(226)	(8)	(8,322)	(41)	(6)	(8,603)
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES:						
Proceeds from notes payable, commercial bank financing and capital leases		69,000				69,000
Repayments of notes payable, commercial bank financing and capital leases	(7,602)	(91,739)	(62)			(99,403)
Increase (decrease) in intercompany payables	21,609	43,223	(59,902)	(4,981)	51	
Dividends paid on Class A and Class B Common Stock	(17,076)				116	(16,960)
Payments for derivative termination		(3,750)				(3,750)
Proceeds from notes and capital leases to affiliates				139	(139)	
Repayments of notes and capital leases to affiliates	(500)		(1,620)	(274)	274	(2,120)
Net cash flows (used in) from financing activities	(3,569)	16,734	(61,584)	(5,116)	302	(53,233)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		(3,258)	685	528		(2,045)
CASH AND CASH EQUIVALENTS, beginning of period		5,892	2,138	1,625		9,655
CASH AND CASH EQUIVALENTS, end of period	$	$ 2,634	$ 2,823	$ 2,153	$	$ 7,610

21

13. SUBSEQUENT EVENT:

WGGB-TV Disposition

On July 31, 2007, we entered into an agreement to sell WGGB-TV in Springfield, Massachusetts, including the FCC license, to an unrelated third party for $21.2 million in cash. The sale will be completed upon approval from the FCC for the transfer of the license to the unrelated third party. We expect closing to occur in the fourth quarter of 2007.

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

General risks

- the impact of changes in national and regional economies;
- the activities of our competitors;
- terrorist acts of violence or war and other geopolitical events;

Industry risks

- the business conditions of our advertisers;
- competition with other broadcast television stations, radio stations, multi-channel video programming distributors and internet and broadband content providers serving in the same markets;
- availability and cost of programming;
- the effects of governmental regulation of broadcasting or changes in those regulations and court actions interpreting those regulations, including ownership regulations, indecency regulations, retransmission regulations, political advertising restrictions and regulations and timing regarding the transition from analog to digital over-the-air broadcasting;
- the continued viability of networks and syndicators that provide us with programming content;

Risks specific to us

- the effectiveness of our management;
- our ability to successfully negotiate retransmission consent agreements;
- our ability to attract and maintain local and national advertising;
- our ability to service our outstanding debt;
- FCC license renewals;
- our ability to maintain our affiliation agreements with the top four networks;
- the popularity of syndicated programming we purchase and network programming that we air;
- successful integration of outsourcing and news share agreements;

- the strength of ratings for our local news broadcasts;
- changes in the makeup of the population in the areas where our stations are located;
- acceptance by viewers and advertisers of The CW Television Network and MyNetworkTV;
- the success of our multi-channel broadcasting initiatives; and
- the results of prior year tax audits by taxing authorities.

Other matters set forth in this report, including the *Risk Factors* set forth in our Annual Report on Form 10-K for the year ended December 31, 2006 filed with the Securities and Exchange Commission, may also cause actual results in the future to differ materially from those described in the forward-looking statements. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. In light of these risks, uncertainties and assumptions, the forward-looking statements discussed in this report might not occur.

The following table sets forth certain operating data for the three and six months ended June 30, 2007 and 2006:

STATEMENT OF OPERATIONS DATA

(in thousands, except for per share data) (Unaudited)

	Three Months Ended June 30, 2007	**2006**	**Six Months Ended June 30, 2007**	**2006**
Statement of Operations Data:				
Net broadcast revenues(a)	$ 161,427	$ 163,771	$ 311,596	$ 311,696
Revenues realized from station barter arrangements	15,772	13,629	29,571	25,434
Other operating divisions revenues	3,466	7,692	6,353	11,429
Total revenues	180,665	185,092	347,520	348,559
Station production expenses	39,279	37,085	75,905	75,194
Station selling, general and administrative expenses	34,637	34,633	68,915	68,780
Expenses recognized from station barter arrangements	14,279	12,503	26,744	23,328
Amortization of program contract costs and net realizable value adjustments	23,108	22,683	44,492	41,306
Depreciation and amortization expenses(b)	15,997	17,121	31,261	33,733
Other operating divisions expenses	4,079	7,773	7,625	11,762
Corporate general and administrative expenses	7,427	6,113	13,391	11,919
Operating income	41,859	47,181	79,187	82,537
Interest expense and amortization of debt discount and deferred financing costs	(25,887)	(28,625)	(52,269)	(58,335)
Interest income	1,701	304	2,089	350
Gain (loss) from sale of assets	4	18	(8)	(269)
Loss from extinguishment of debt	(14,967)	(256)	(30,648)	(879)
(Loss) gain from derivative instruments	(1,654)	26	(597)	2,907
(Loss) income from equity and cost method investments	(880)	36	(892)	6,135
Other income, net	455	607	676	482
Income (loss) from continuing operations before income taxes	631	19,291	(2,462)	32,928
Income tax benefit (provision)	1,195	(8,498)	2,038	(15,059)
Income from continuing operations	1,826	10,793	(424)	17,869
Discontinued Operations:				
Income (loss) from discontinued operations, net of taxes	371	(510)	232	658
Gain from discontinued operations, net of taxes				1,774
Net income (loss)	$ 2,197	$ 10,283	$ (192)	$ 20,301
Basic and Diluted Earnings (Loss) Per Common Share:				
Basic and diluted earnings per common share from continuing operations	$ 0.02	$ 0.13	$	$ 0.21
Basic and diluted earnings (loss) per common share from discontinued operations	$	$ (0.01)	$	$ 0.03
Basic and diluted earnings per common share	$ 0.03	$ 0.12	$	$ 0.24
Weighted average common shares outstanding	87,122	85,692	86,634	85,593
Weighted average common and common equivalent shares outstanding	87,282	85,734	86,634	85,634
Dividends declared per common share	$ 0.15	$ 0.10	$ 0.30	$ 0.20

Balance Sheet Data:	**June 30, 2007**	**December 31, 2006**
Cash and cash equivalents	$ 9,181	$ 67,408

Total assets	$	2,182,782	$	2,271,580
Total debt(c)	$	1,357,979	$	1,413,623
Total shareholders equity	$	256,996	$	266,645

(a) Net broadcast revenues is defined as station broadcast revenues, net of agency commissions.

(b) Depreciation and amortization includes depreciation of property and equipment and amortization of definite-lived intangible broadcasting assets and other assets.

(c) Total debt is defined as notes payable, capital leases and commercial bank financing, including the current and long-term portions thereof.

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

Executive Overview financial highlights since March 31, 2007;

Recent Accounting Pronouncements a description of new accounting pronouncements that apply to us;

Results of Operations an analysis of our revenues and expenses for the three and six months ended June 30, 2007 and 2006, including comparisons between quarters and expectations for the third quarter 2007; and

Liquidity and Capital Resources an analysis of our cash flows from or used in operating activities, investing activities and financing activities and an update of our debt repurchases during the quarter.

EXECUTIVE OVERVIEW

Second Quarter 2007 Highlights

- In April 2007, we entered into a retransmission consent agreement with Charter Communications, Inc. for the carriage of the analog and digital signals of 28 stations in 19 markets, representing approximately 1.9 million subscribers;

- In April 2007, our FOX affiliate, KOKH-TV in Oklahoma City, Oklahoma expanded its Monday through Friday news offering through the addition of a three hour morning newscast;

- In April 2007, we became a part of the Open Mobile Video Coalition, which we and eight other broadcasters formed to promote the development of mobile digital broadcasting applications;

- In May 2007, we acquired Triangle Sign & Service, Inc., a Baltimore-based company whose primary business is to design and fabricate commercial signs for retailers, sports complexes and other commercial businesses for $16.0 million;

- In May 2007, we completed an offering of $345.0 million aggregate principal amount of 3% Convertible Senior Notes, due 2027 and used the proceeds to partially redeem our 8% Senior Subordinated Notes, due 2012 generating a $15.0 million loss on extinguishment of debt;

- In June 2007, we entered into a retransmission consent agreement with COX Communications, Inc. for the carriage of the analog and digital signals of nine stations in six markets, representing approximately 1.3 million subscribers;

- Our retransmission consent agreements, including the advertising component, generated $14.6 million in total net broadcast revenues during the second quarter of 2007 compared to $6.2 million during the same period in 2006; and

- Excluding political, local and national net time sales were down 3.5% in the second quarter 2007 versus the second quarter 2006 primarily due to weakness in our Ohio markets and our MyNetworkTV stations.

25

Other Highlights

- With all but four markets reported, market survey results reflect that our stations share of the television advertising market in the second quarter 2007 declined slightly to 18.3% share, on an excluding political basis, versus the same period last year; and

- On July 31, 2007, we entered into an agreement to sell WGGB-TV in Springfield, Massachusetts, including the FCC license to an unrelated third party for $21.2 million in cash. The sale will be completed upon approval from the FCC for the transfer of the license to the unrelated third party. We expect closing to occur in the fourth quarter of 2007.

RECENT ACCOUNTING PRONOUNCEMENTS

In February 2007, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115* (SFAS 159). The fair value option established by this Statement permits all entities to choose to measure eligible items at fair value at specified election dates. Unrealized gains and losses on items for which the fair value option has been elected are to be reported in earnings at each subsequent reporting date. This Statement is effective for our fiscal year beginning January 1, 2008. We are currently evaluating the impact that adoption of SFAS 159 will have on our consolidated financial statements.

In May 2007, the FASB issued FASB Staff Position (FSP) FIN 48-1, *Definition of Settlement in FASB Interpretation No. 48*. This FSP amends FASB Interpretation No.48, *Accounting for Uncertainty in Income Taxes* (FIN 48), to provide guidance on how an enterprise should determine whether a tax position is effectively settled for the purpose of recognizing previously unrecognized tax benefits. The guidance in this FSP should be applied by companies upon the initial adoption of FIN 48. This statement did not have a material impact on our consolidated financial statements.

In June 2007, the Emerging Issues Task Force (EITF) issued the consensus on Issue No. 06-11, *Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards*. The provisions require companies to recognize the tax benefits of dividends on unvested share-based payments in equity and reclassify the tax benefits from additional paid-in capital to the income statement when the related award is forfeited. The provisions are effective prospectively starting January 1, 2008. We do not expect the impact of this issue to have a material effect to our consolidated financial statements.

In June 2007, the American Institute of Certified Public Accountants issued Statement of Position (SOP) 07-1, *Clarification of the Scope of the Audit and Accounting Guide on Investment Companies and Accounting by Parent Companies and Equity Method Investors for Investments in Investment Companies*. This SOP provides guidance for applicable principle and disclosure requirements for parent companies and equity method investors in investment companies that retain investment company accounting in the parent company s consolidated financial statements or the financial statements of an equity method investor. The provisions of this SOP are effective for fiscal years beginning January 1, 2008. We are currently evaluating the impact this statement will have on our consolidated financial statements.

RESULTS OF OPERATIONS

In general, this discussion is related to the results of our continuing operations, except for discussions regarding our cash flows, which also include the results of our discontinued operations. Unless otherwise indicated, references in this discussion and analysis to the second quarter of 2007 and 2006 refer to the three months ended June 30, 2007 and 2006, respectively. Additionally, any references to the first, third or fourth quarter are to the three months ended March 31, September 30 and December 31, respectively, for the year being discussed.

Operating Results

The following table presents our revenues from continuing operations, net of agency commissions, for the three months and six months ended June 30, 2007 and 2006 (in millions):

	For the Three Months Ended June 30,			For the Six Months Ended June 30,		
	2007	2006	Percent Change	2007	2006	Percent Change
Local revenues:						
Non-political	$ 96.0	$ 96.3	(0.3 %)	$ 187.1	$ 187.4	(0.2 %)
Political	0.1	0.6	(83.3 %)	0.2	0.7	(71.4 %)
Total local	96.1	96.9	(0.8 %)	187.3	188.1	(0.4 %)
National revenues:						
Non-political	48.4	53.3	(9.2 %)	93.2	100.3	(7.1 %)
Political	1.0	1.1	(9.1 %)	1.4	1.7	(17.6 %)
Total national	49.4	54.4	(9.2 %)	94.6	102.0	(7.3 %)
Other revenues	15.9	12.5	27.2 %	29.7	21.6	37.5 %
Total net broadcast revenues	$ 161.4	$ 163.8	(1.5 %)	$ 311.6	$ 311.7	%

Net broadcast revenues. From a revenue category standpoint, the second quarter 2007, when compared to the same period in 2006, was negatively impacted by a decrease in advertising revenues generated from the automotive, retail-department stores, fast food, services and paid programming sectors. These decreases were offset by increases in the medical, telecommunications, media, travel-leisure, entertainment and other sectors. Automotive, our single largest category representing 21.1% of the 2007 year-to-date s net time sales, was down 8.0% for the six months ended June 30, 2007 compared to the same period in 2006.

The following table presents our time sales revenue from continuing operations, net of agency commissions, by network affiliates for the three and six months ended June 30, 2007 and 2006 (dollars in millions):

	# of Stations	Percent of Sales for the six months ended June 30, 2007	For the three months ended June 30, 2007	2006(a)	Percent Change	For the six months ended June 30, 2007	2006(a)	Percent Change
FOX	19	43.8%	$ 64.1	$ 62.3	2.9 %	$ 123.5	$ 117.1	5.5 %
ABC	10	22.0%	33.2	33.3	(0.3 %)	61.9	65.5	(5.5 %)
MyNetworkTV(a)	17	18.1%	25.3	32.1	(21.2 %)	51.1	62.3	(18.0 %)
The CW(a)	9	13.5%	19.0	19.7	(3.6 %)	38.0	38.3	(0.8 %)
CBS	2	1.8%	2.8	2.8	%	5.2	4.9	6.1 %
NBC	1	0.7%	0.9	1.0	(10.0 %)	1.9	1.9	%
Digital(b)	4	0.1%	0.2	0.1	100.0 %	0.3	0.1	200.0 %
Total	62		$ 145.5	$ 151.3	(3.8 %)	$ 281.9	$ 290.1	(2.8 %)

(a) In September 2006, our composition of network affiliates changed as a result of our agreement to air MyNetworkTV programming and the merger of UPN and The WB into a network called The CW. We have reclassified the revenue from those stations in prior quarters for comparability.

(b) Some of our television stations are broadcasting a second digital signal in accordance with FCC rules.

Political Revenues. Political revenues decreased by $0.6 million to $1.1 million for the second quarter 2007 when compared to the same period in 2006. For the six months ended June 30, 2007, political revenues decreased by $0.8 million to $1.6 million when compared to the same period in 2006. We expect fourth quarter political revenues to be strong for a non-election year due to the many state primaries that have been moved into early 2008.

27

Local Revenues. Our revenues from local advertisers, excluding political revenues, were down $0.3 million for each of the three and six months ended June 30, 2007 when compared to 2006. Revenues decreased primarily due to weakness at our MyNetworkTV stations. Revenues from our new business initiatives increased during the second quarter 2007 to $8.2 million from $7.7 million during the same period in 2006. For the six months ended June 30, 2007, revenues from our new business initiatives increased to $14.9 million from $14.6 million when compared to the same period 2006. We continue to provide an enhanced sales training course for all of our salespeople with a focus on local revenue sales. We expect to continue these efforts throughout 2007.

National Revenues. Our revenues from national advertisers, excluding political revenues, have continued to trend downward over time. We believe this trend represents a shift in the way national advertising dollars are being spent and we believe this trend will continue in the future. Advertisers in major categories like automotive, soft drink and packaged goods are shifting significant portions of their advertising budgets away from spot television into non-traditional media, in-store promotions and product placement in network shows. Automotive decreases are due to automotive companies reducing advertising budgets and shifting advertising to specific markets. We expect this trend to continue throughout 2007. In 2007, Super Bowl advertising revenues were $2.0 million less than the same period in 2006 due to the shift in network affiliation from ABC to CBS. During the six months ended June 30, 2007, we also had decreases in national revenues, excluding political from our Ohio markets of $2.1 million and decreases in revenue of $7.0 million related to MyNetworkTV stations.

Other Revenues. Our other revenues consist primarily of revenues from retransmission consent agreements with cable, satellite and telecommunication providers, network compensation, production revenues and revenues from our outsourcing agreements. Our retransmission consent agreements, including the advertising component, generated $14.6 million in total broadcast revenues during the second quarter 2007 compared with $6.2 million during the same period in 2006. This growth trend is the result of our ability to monetize our existing relationships as cable providers struggle with increased competition from alternative video delivery providers and have begun to recognize the value of our digital and high definition signals and network programming. During the second quarter 2007, $11.7 million of the total $14.6 million in revenues generated from our retransmission consent agreements are included in other revenues, while the remaining $2.9 million is included in net time sales. During the second quarter 2006, $5.0 million of the total $6.2 million in revenues generated from our retransmission consent agreements are included in other revenues, while the remaining $1.2 million is included in net time sales. We expect further monetization of our agreements throughout 2007, however, not as robust as the first six months of 2007.

For the six months ended June 30, 2007, $20.9 million of the total $25.6 million in revenues generated from our retransmission consent agreements are included in other revenues, while the remaining $4.7 million is included in net time sales. For the six months ended June 30, 2006, $10.0 million of the total $12.0 million in revenues generated from our retransmission consent agreements are included in other revenues, while the remaining $2.0 million is included in net time sales.

The following table presents our significant expense categories for the three and six months ended June 30, 2007 and 2006 (in millions):

	For the Three Months Ended June 30,			For the Six Months Ended June 30,		
	2007	2006	Percent Change	2007	2006	Percent Change
Station production expenses	$ 39.3	$ 37.1	5.9 %	$ 75.9	$ 75.2	0.9 %
Station selling, general and administrative expenses	$ 34.6	$ 34.6	%	$ 68.9	$ 68.8	0.1 %
Amortization of program contract costs and net realizable value adjustments	$ 23.1	$ 22.7	1.8 %	$ 44.5	$ 41.3	7.7 %
Depreciation of property and equipment	$ 11.6	$ 12.7	(8.7 %)	$ 22.5	$ 25.0	(10.0 %)

Corporate general and administrative expenses	$	7.4		$	6.1		21.3	%	$	13.4		$	11.9		12.6	%
Interest expense	$	25.9		$	28.6		(9.4	%)	$	52.3		$	58.3		(10.3	%)
Interest income	$	1.7		$	0.3		466.7	%	$	2.1		$	0.4		425.0	%
Loss from extinguishment of debt	$	15.0		$	0.3		4,900.0	%	$	30.6		$	0.9		3,300.0	%
(Loss) gain from derivative instruments	$	(1.7	)	$			(100.0	%)	$	(0.6	)	$	2.9		(120.7	%)
(Loss) income from equity and cost method investments	$	(0.9	)	$			(100.0	%)	$	(0.9	)	$	6.1		(114.8	%)
Income tax benefit (provision)	$	1.2		$	(8.5	)	114.1	%	$	2.0		$	(15.1	)	113.2	%

Station Production Expenses. Station production expenses increased during the second quarter 2007 compared to the same period in 2006 as a result of increases in news expenses of $1.1 million, promotion expenses of $0.6 million, music license fees of $0.4 million, engineering expenses of $0.2 million, production expenses of $0.1 million and programming expenses of $0.1 million. These increases were offset by decreases in rating service expenses of $0.3 million.

Station production expenses for the six months ended June 30, 2007 increased compared to the same period in 2006 due to increases in promotion expense of $1.3 million, engineering expense of $0.6 million, music license fees of $0.6 million and production expenses of $0.2 million. These increases were offset by savings from the restructuring of our news operations of $1.1 million and decreases in rating service expenses of $0.6 million, programming expenses of $0.1 million, costs related to LMAs and outsourcing agreements of $0.1 million and on-air operations of $0.1 million.

Station Selling, General and Administrative Expenses. Station selling, general and administrative expenses remained flat during the second quarter 2007 compared to same period in 2006 as a result of increases in national sales representative firm commissions of $0.4 million, offset by decreases in local sales commissions and other sales expenses of $0.4 million.

Station selling, general and administrative expense for the six months ended June 30, 2007, increased slightly compared to the same period in 2006 as a result of increases in national sales representative firm commissions of $0.8 million and bad debt expenses of $0.4 million. These increases were offset by decreases in local sales commissions and other sales expenses of $0.9 million and other expenses of $0.2 million.

We expect third quarter 2007 station production and station selling, general and administrative expenses, excluding barter, to trend lower than our second quarter 2007 results.

Amortization of Program Contract Costs. The amortization of program contract costs increased during the second quarter 2007 compared to the same period in 2006 and for the six months ended June 30, 2007 compared to the same period in 2006 primarily due to significant program additions during 2006. We expect program contract amortization to trend lower in third quarter 2007 compared to second quarter 2007.

Depreciation of Property and Equipment. Depreciation of property and equipment decreased in the second quarter 2007 when compared to the same period in 2006 and for the six months ended June 30, 2007 compared to the same period in 2006. The decrease is primarily related to a large number of assets that had become fully depreciated during 2006. We expect depreciation on property and equipment to trend lower in third quarter 2007 compared to second quarter 2007.

Corporate General and Administrative Expenses. Corporate general and administrative expenses represent the costs to operate our corporate headquarters location. Such costs include, among other things, corporate departmental salaries, bonuses and fringe benefits, directors and officers insurance, rent, telephone, consulting fees, legal, accounting, director fees and strategic development initiatives. Corporate departments include executive, treasury, finance and accounting, human resources, technology, corporate relations, legal, sales, engineering, operations and purchasing.

Corporate general and administrative expenses increased in the second quarter 2007 when compared to the same period in 2006 due to increases of stock-based compensation expense for stock-settled stock appreciation rights of $1.0 million and restricted and unrestricted stock awards of $0.4 million. In addition, there were increases in salary and bonus expense of $0.1 million, director s fees of $0.1 million and other expenses of $0.2 million. These increases were offset by decreases in costs related to the shutdown of unprofitable local news programming at several stations in 2006 of $0.3 million and health insurance costs of $0.2 million.

Corporate general and administrative expenses for the six months ended June 30, 2007 increased compared to the same period in 2006 due to increases of stock-based compensation expense for stock-settled stock appreciation rights of $1.0 million, restricted and unrestricted stock awards of $0.4 million, investment consulting fees of $0.2 million, 401k match expense of $0.2 million, director s fees of $0.2 million, salary and bonus expense of $0.1 million and other expenses of $0.1 million. These increases were offset by decreases in health insurance costs of $0.4 million, insurance expense of $0.1 million, workers compensation expense of $0.1 million and legal fees of $0.1 million.

We expect corporate overhead expenses to decrease in third quarter 2007 compared to second quarter 2007.

Interest Expense. Interest expense has been decreasing since 2004. The decrease during the second quarter 2007 compared to the same period in 2006 and for the six months ended June 30, 2007 compared to the same period in 2006 is due to the redemption of the 8.75% Senior Subordinated Notes, due 2011 (the 2011 Notes) on January 22, 2007 and the partial redemption of the 8% Senior Subordinated Notes, due 2012 (the 2012 Notes) on June 11, 2007 and June 18, 2007. These decreases were offset by an increase in our Revolving Credit Facility and Term Loan interest and interest on the 3% Convertible Senior Notes, due 2027.

Interest Income. Interest income increased for both the three and six months ended June 30, 2007. The primary driver for this increase was interest earned on the proceeds from our 2007 debt issuances before the proceeds were used to redeem or partially redeem our existing debt.

We expect interest expense net of interest income to decrease in the third quarter 2007 compared to second quarter 2007, assuming no changes in the current interest rate yield curve or changes in our assumption of debt levels for 2007.

Loss from Extinguishment of Debt. In January 2007 and June 2007, we redeemed and partially redeemed our 2011 Notes and our 2012 Notes, respectively. The redemption of the 2011 Notes resulted in a $15.7 million loss from extinguishment of debt. The partial redemption of the 2012 Notes resulted in a $15.0 million loss from extinguishment of debt. For further information see *Liquidity and Capital Resources*.

(Loss) gain from Derivative Instruments. We record gains and losses related to certain of our derivative instruments not treated as hedges in accordance with SFAS 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended. The fair value of our derivative instruments is primarily based on the anticipated future interest rate curves at the end of each period. The loss from our derivative instruments during the first and second quarter 2007 when compared to the same periods in 2006 is primarily due to normal market fluctuations.

(Loss) income from Equity and Cost Method Investments. For the three months ended June 30, 2007, we recorded an impairment of $1.0 million related to one of our venture capital companies. For the six months ended June 30, 2006, we recorded $6.8 million of income from Allegiance Capital LP. This was a result of the sale and initial public offering of certain of Allegiance s portfolio companies and was offset by miscellaneous decreases in other investments.

Income Tax Provision. We adopted the provisions of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48) on January 1, 2007. The adoption of FIN 48 did not cause a material change to our contingent liability for unrecognized tax benefits. We decreased the January 1, 2007 balance of retained earnings by $0.6 million to apply the cumulative effect of FIN 48 adoption. As of the date of adoption, we had $32.9 million of gross unrecognized tax benefits. Of this total, $17.6 million (net of federal effect on state tax issues) and $7.8 million (net of federal effect on state tax issues) represent the amounts of unrecognized tax benefits that, if recognized, would favorably affect our effective tax rates from continuing operations and discontinued operations, respectively. At June 30, 2007, we had $32.2 million of gross unrecognized tax benefits. Of this total, $17.4 million (net of federal effect on state tax issues) and $7.4 million (net of federal effect on state tax issues) represent the amounts of unrecognized tax benefits that, if recognized, would favorably affect our effective tax rates from continuing operations and discontinued operations, respectively.

We recognize accrued interest and penalties related to unrecognized tax benefits in income tax expense. We had $6.7 million and $0 accrued for interest and penalties, respectively, at January 1, 2007. We recognized $0.4 million and $1.1 million of income tax expense for interest related to uncertain tax positions for the three and six months ended June 30, 2007, respectively.

The effective tax rate for the three and six months ended June 30, 2007 was a benefit of 189.4% and 82.8%, respectively, as compared to a provision of 44.1% and 45.7% during the same periods in 2006, respectively. The reduction in our effective tax rate is primarily attributable to the impact of a $1.6 million deferred tax benefit as a result of two state tax law changes enacted in 2007. This change was further magnified by a negligible pre-tax income and a small pre-tax loss for the three and six months ended June 30, 2007 compared to the larger pre-tax income in 2006.

Other Operating Divisions Revenue and Expense

The following table presents Other Operating Divisions revenue and expenses related to G1440 Holdings, Inc. (G1440), our software development and consulting company and Acrodyne Communications, Inc. (Acrodyne), a manufacturer of television transmissions systems, for the three and six months ended June 30, 2007 and 2006 (in millions):

	For the Three Months Ended June 30,			**For the Six Months Ended June 30,**		
	2007	**2006**	**07 vs. 06**	**2007**	**2006**	**07 vs. 06**
Revenues:						

G1440	$	2.3	$	2.2	4.5	%	$	4.6	$	4.4	4.5	%
Acrodyne	$	1.2	$	5.5	(78.2	%)	$	1.7	$	7.1	(76.1	%)
Expenses:												
G1440	$	2.4	$	2.2	9.1	%	$	4.8	$	4.4	9.1	%
Acrodyne	$	1.6	$	5.6	(71.4	%)	$	2.8	$	7.3	(61.6	%)

30

LIQUIDITY AND CAPITAL RESOURCES

Sinclair Television Group, Inc. (STG), a wholly owned subsidiary of Sinclair Broadcast Group, Inc. (SBG), is the primary obligor under our existing Bank Credit Agreement, as amended (the Bank Credit Agreement), and the 8% Senior Subordinated Notes, due 2012, which were partially redeemed on June 11, 2007 and June 18, 2007, and STG was the primary obligor under the 8.75% Senior Subordinated Notes, due 2011, which were redeemed in full on January 22, 2007. Our Class A Common Stock, Class B Common Stock, the 6.0% Convertible Debentures, due 2012, 4.875% Convertible Senior Notes, due 2018 and 3.0% Convertible Senior Notes, due 2027 are obligations or securities of SBG and are not obligations or securities of STG.

Our primary sources of liquidity are cash provided by operations and availability under our Bank Credit Agreement, as amended. As of June 30, 2007, we had $9.2 million in cash and cash equivalent balances and working capital of approximately $24.1 million. We anticipate that cash flow from our operations and borrowings under the Revolver will be sufficient to continue paying dividends under our current policy and to satisfy our debt service obligations, capital expenditure requirements and working capital needs for the next year. As of June 30, 2007, we had borrowed $97.5 million under our Term Loan A, $225.0 million under our Term Loan A-1 and $21.0 million under our Revolver. Our ability to draw on our Revolver is based on pro forma trailing cash flow levels as defined in our Bank Credit Agreement. As of June 30, 2007, $154.0 million of current borrowing capacity was available under our Revolver. As of June 30, 2007, we had $5.0 million of availability under our universal shelf registration statement filed with the Securities and Exchange Commission that expires on November 30, 2008.

On January 22, 2007, we redeemed in full, the $307.4 million aggregate principal amount of our 8.75% Senior Subordinated Notes, due 2011 (the 2011 Notes). The redemption was effected in accordance with the terms of the indenture governing the 2011 Notes at a redemption price of 104.375% of the principal amount of the 2011 Notes plus accrued and unpaid interest. As a result of the redemption, we recorded a loss from extinguishment of debt of $15.7 million representing the redemption premium and write-off of certain debt acquisition costs. The redemption of the 2011 Notes and payment of accrued interest was funded from the net proceeds of the $225.0 million Term Loan A-1, additional borrowings under the Revolver of $23.0 million and cash on hand of $59.4 million.

On May 10, 2007, we completed an offering of $300.0 million aggregate principal amount of Convertible Senior Notes, due 2027 (the 2027 Notes) at an interest rate of 3% per year. Upon certain conditions, the 2027 Notes are convertible into cash and, in certain circumstances, shares of class A common stock prior to maturity at an initial conversion price of $20.43 per share, subject to adjustment, which is equal to an initial conversion rate of approximately 48.9476 shares of class A common stock per $1,000 principal amount of notes. Under certain provisions of the indenture we may be required to pay contingent cash interest to the holders of notes. The 2027 Notes may not be redeemed prior to May 20, 2010 and may thereafter be redeemed by us at par. On May 18, 2007, the underwriters of the notes exercised their option to purchase up to an additional aggregate $45.0 million principal amount of the notes. The offering was made pursuant to our universal shelf registration statement previously filed with the Securities and Exchange Commission. For additional information, refer to *Note 5. Notes Payable*, in the Notes to our Consolidated Financial Statements.

On June 11, 2007 and June 18, 2007, we partially redeemed $300.0 million and $45.0 million, respectively, of our existing 8.0% Senior Subordinated Notes, due 2012 (the 2012 Notes) at a redemption price of 104% of the principal amount of the 2012 Notes plus accrued and unpaid interest with net proceeds from the offering and cash on hand. As of June 30, 2007, the face amount of the 2012 Notes outstanding was $273.3 million. As a result of the partial redemption, we recorded a loss from extinguishment of debt of $15.0 million representing the redemption premium and write-off of certain debt acquisition costs, a debt premium and an unamortized derivative asset.

We expect to continue to monitor the trading of our debt in the open market and when it makes financial sense, we may repurchase additional amounts from time to time. We also will consider the options available to us regarding the redemption of our various debt instruments outstanding.

Sources and Uses of Cash

The following table sets forth our cash flows for the three and six months ended June 30, 2007 and 2006 (in millions):

	For the Three Months Ended June 30, 2007	2006	For the Six Months Ended June 30, 2007	2006
Net cash flows from operating activities	$ 17.0	$ 36.3	$ 40.3	$ 59.8
Cash flows from (used in) investing activities:				
Acquisition of property and equipment	$ (3.4)	$ (4.8)	$ (10.0)	$ (9.5)
Payments for acquisition of television stations				(1.7)
Payments for acquisition of an other operating divisions company	(16.0)		(16.0)	
Dividends and distributions from cost method investees	0.3		0.7	
Proceeds from the sale of broadcast assets related to discontinued operations				1.4
Proceeds from the sale of assets				1.4
Other		(0.1)	0.1	(0.2)
Net cash flows used in investing activities	$ (19.1)	$ (4.9)	$ (25.2)	$ (8.6)
Cash flows from (used in) financing activities:				
Proceeds from notes payable, commercial bank financing and capital leases	$ 395.2	$ 20.0	$ 671.7	$ 69.0
Repayments of notes payable, commercial bank financing and capital leases	(380.9)	(38.3)	(726.1)	(99.4)
Payments for deferred financing costs	(6.8)		(6.8)	
Proceeds from exercise of stock options, including excess tax benefits of $1,844	2.3		13.7	
Dividends paid on Class A and Class B Common Stock	(12.9)	(8.5)	(23.6)	(17.0)
Payments on derivative terminations		(3.8)		(3.8)
Other	(1.0)	(1.0)	(2.2)	(2.0)
Net cash flows used in financing activities	$ (4.1)	$ (31.6)	$ (73.3)	$ (53.2)

Operating Activities

Net cash flows from operating activities decreased during the second quarter 2007 compared to the same period in 2006. During second quarter 2007, cash receipts from customers, net of cash payments to vendors for operating expenses and other working capital cash activities were $11.5 million less in second quarter 2007 compared to the same period in 2006. Additionally, in the second quarter 2007, we paid $13.4 million more for the extinguishment of debt due to the partial redemption of the 8% Senior Subordinated Notes, due 2012 (2012 Notes) and $1.1 million less was received in tax refunds, net of taxes paid. These amounts were partially offset by decreases in interest payments of $3.4 million and program payments of $2.5 million and an increase in distributions from equity and cost method investees of $0.8 million.

Net cash flows from operating activities decreased during the six months ended June 30, 2007 compared to the same period in 2006. During the six months of 2007, we paid $27.2 million more for the extinguishment of debt due to the full redemption of the 8.75% Senior Subordinated Notes, due 2011 (the 2011 Notes) and the partial redemption of the 2012 Notes. We received $5.1 million less in distributions from equity and cost method investees and made $0.4 million more in interest payments. These amounts were offset in part by cash receipts from customers, net of cash payments to vendors for operating expenses and other working capital cash activities that were $2.0 million greater in the six months 2007 compared to the same period in 2006. Additionally, in the six months of 2007, we made $8.2 million less in program payments and $4.6 million less in cash tax payments, offset by receiving $1.6 million less in cash tax refunds. Tax payments in 2006 primarily related to station sales.

We expect to have a lower interest payments in the third quarter 2007 compared to the second quarter 2007. We expect program payments to decrease in the third quarter 2007 compared to the second quarter 2007.

Investing Activities

Net cash flows used in investing activities increased during the second quarter 2007 compared to the same period in 2006. During the second quarter 2007, we paid $16.0 million related to our acquisition of Triangle Sign & Service, Inc. (Triangle). These cash outflows were partially offset by a decrease in capital expenditures of $1.4 million during the second quarter 2007 as compared to the second quarter 2006. Additionally, we received distributions of our investment of $0.3 million from our cost method investees, in the second quarter 2007.

32

Net cash flows used in investing activities increased during the six months ended June 30, 2007 compared to the same period in 2006. During the six months of 2007, we received less than $0.1 million related to the sale of certain broadcasting assets. During the six months of 2006, we received $1.4 million related to the sale of WEMT-TV in Tri-Cities, Tennessee and $1.4 million related to the sale of certain broadcasting assets. During the six months of 2007, there was an increase in capital expenditures of $0.5 million as compared to the same period in 2006. This increase is primarily related to spending on building improvement projects. Additionally, we paid $16.0 million related to our acquisition of Triangle. These cash outflows were partially offset by a decrease in payments related to station purchase options. During the six months of 2006, we paid $1.7 million related to the purchase option for WDKA-TV in Paducah, Kentucky. Additionally, we received distributions of our investment of $0.7 million from our cost method investees during the six months of 2007.

For third quarter 2007, we anticipate incurring higher capital expenditures than incurred in the second quarter 2007 primarily related to station maintenance, equipment replacement and consolidation of building and tower needs in some markets. We expect to fund such capital expenditures with cash generated from operating activities and borrowings under our Bank Credit Agreement.

Financing Activities

Net cash flows used in financing activities decreased significantly in the second quarter of 2007 compared to the same period in 2006. Our debt issuances to non-affiliates, net of debt repayments in second quarter 2007, were $14.3 million compared to debt repayments, net of debt issuances of $18.3 million in 2006. Additionally, we received proceeds from the exercise of stock options for second quarter 2007 of $2.3 million and paid $3.8 million to terminate a derivative obligation during the second quarter 2006. These cash inflows were partially offset by $4.4 million more in payments for common stock dividends during the second quarter 2007 as compared to the second quarter 2006 and $6.8 million of deferred financing cost payments primarily related to the offering of the 2027 Notes.

Net cash flows used in financing activities increased in the six months ended June 30, 2007 compared to the same period in 2006. Our debt repayments to non-affiliates, net of debt issuances in the six months of 2007, were $54.4 million compared to $30.4 million in 2006 and we paid deferred financing costs of $6.8 million during the six months of 2007 primarily related to the offering of the 2027 Notes. Additionally, we paid $6.6 million more in common stock dividends during the first six months of 2007 as compared to the same period in 2006. These cash outflows were partially offset by proceeds from the exercise of stock options for the first six months of 2007 of $13.7 million and the absence in 2007 of cash paid to terminate derivative obligations of $3.8 million.

Currently, we expect to continue to pay a quarterly dividend rate of $0.15 per share and to fund these dividends with cash generated from operating activities and borrowings under our Bank Credit Agreement.

Seasonality/Cyclicality

Our operating results are usually subject to seasonal fluctuations. Usually, the second and fourth quarter operating results are higher than the first and third quarters because advertising expenditures are increased in anticipation of certain seasonal and holiday spending by consumers.

Our operating results are usually subject to fluctuations from political advertising. In even years, political spending is usually significantly higher than in odd years due to advertising expenditures preceding local and national elections. Additionally, every four years, political spending is elevated further due to advertising expenditures preceding the presidential election. However, we expect the television industry to begin to generate increased revenues in odd-number years preceding presidential elections such as 2007 due to earlier state primary dates and an increase in political advertising budgets.

CONTRACTUAL CASH OBLIGATIONS

During first quarter 2007, we redeemed in full the $307.4 million aggregate principal amount of the 2011 Notes. This redemption was funded from the net proceeds of the $225.0 million Term Loan A-1, additional borrowings under the Revolver of $23.0 million and cash on had of $59.4 million.

During second quarter 2007, we partially redeemed $345.0 million of the 2012 Notes. This redemption was funded from the net proceeds of the $345.0 million 2027 Notes.

There were no other material changes outside the ordinary course of business to our contractual cash obligations disclosed in our Annual Report on Form 10-K for the year ended December 31, 2006. For additional information regarding the payment terms of the 2027 Notes, see *Liquidity and Capital Resources* above.

33

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to market risk from changes in interest rates. We enter into derivative instruments primarily for the purpose of reducing the impact of changing interest rates on our floating rate debt and to reduce the impact of changing fair market values on our fixed rate debt. We account for our derivative instruments under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended.

As of June 30, 2007, we had two derivative instruments. Both of these instruments are interest rate swap agreements. One of these swap agreements with a notional amount of $180.0 million and expiring on March 15, 2012, is accounted for as a fair value hedge; therefore, any changes in its fair market value are reflected as an adjustment to the carrying value of our 8.0% Senior Subordinated Notes, due 2012, which is the underlying debt being hedged. During 2006, the other interest rate swap agreement was undesignated as a fair value hedge due to a reassignment of the counterparty; therefore, any subsequent changes in the fair market value are reflected as an adjustment to income. The notional amount of this swap agreement is $120.0 million and it expires on March 15, 2012. The interest we pay on the $180.0 million interest rate swap agreement is floating based on the three-month London Interbank Offered Rate (LIBOR) plus 2.28% and the interest we receive is 8.0%. The $120.0 million swap is structured identically with the exception of a difference in the interest spread where it is 2.35%. The fair market value of these agreements is estimated by obtaining quotations from the international financial institution which is a party to the contract. The fair value is an estimate of the net amount that we would pay on the balance sheet date if we cancelled the contracts or transferred them to other parties and includes net accrued interest receivable or payable. This amount was a net asset of $4.8 million and $5.7 million as of June 30, 2007 and December 31, 2006, respectively.

To determine the sensitivity of these derivative instruments to changes in interest rates, we also obtain quotations from the party to the contract that estimate the pro forma fair market value of the instruments on June 30, 2007 if current interest rates were higher by 1% or lower by 1%. As of June 30, 2007, the fair market value of these instruments would be a liability of $4.9 million if interest rates were 1% higher and an asset of $12.4 million if interest rates were 1% lower than current rates.

During May 2003, we completed an issuance of $150.0 million aggregate principal amount of 4.875% Convertible Senior Notes, due 2018. During May 2007, we completed an issuance of $345.0 million aggregate principal amount of 3.0% Convertible Senior Notes, due 2027. Under certain circumstances, we will pay contingent cash interest to the holders of convertible notes commencing on January 15, 2011 and May 20, 2010 for the 4.875% Notes and 3.0% Notes, respectively. The contingent cash interest feature for both issuances are embedded derivatives which have a negligible fair value as of June 30, 2007.

We are also exposed to risk from a change in interest rates to the extent we are required to refinance existing fixed rate indebtedness at rates higher than those prevailing at the time the existing indebtedness was incurred. As of June 30, 2007, we had senior subordinated notes totaling $273.3 million, convertible senior bonds totaling $150.0 million, convertible subordinated bonds totaling $153.2 million and convertible senior notes totaling $345.0 million expiring in the years 2012, 2018, 2012 and 2027, respectively. Based on the quoted market price, the fair value of the notes and bonds was $918.7 million as of June 30, 2007. Generally, the fair market value of the notes and bonds will decrease as interest rates rise and increase as interest rates fall. We estimate that a 1.0% increase from prevailing interest rates would result in a decrease in fair value of the notes and bonds by $75.7 million as of June 30, 2007. The estimates related to the increase or decrease of interest rates are based on assumptions for forecasted future interest rates.

The fair value of the notes and bonds was $1.2 billion as of December 31, 2006 and at that time we estimated that a 1.0% increase in prevailing interest rates would have resulted in a decrease of $57.4 million in fair value. This indicates that our exposure to risk from a change in interest rates has not materially changed since December 31, 2006.

On January 22, 2007, we redeemed in full our 8.75% Senior Subordinated Notes, due 2011 using the proceeds from our $225.0 million Term Loan A-1 and borrowing under the Revolver. This transaction increases our risk to increases in interest rates as the Term Loan A-1 and Revolver both accrue interest with a variable rate.

On May 10, 2007, we completed an offering of $300.0 million aggregate principal amount of Convertible Senior Notes, due 2027 (the 2027 Notes) at an interest rate of 3% per year. Upon certain conditions, the 2027 Notes are convertible into cash and, in certain circumstances, shares of class A common stock prior to maturity at an initial conversion price of $20.43 per share, subject to adjustment, which is equal to an initial conversion rate of approximately 48.9476 shares of class A common stock per $1,000 principal amount of notes. Under certain provisions of the indenture we may be required to pay contingent cash interest to the holders of notes. The 2027 Notes may not be redeemed prior to May 20, 2010 and may thereafter be redeemed by us at par. On May 18, 2007, the underwriters of the notes exercised their option to purchase up to an

additional aggregate $45.0 million principal amount of the notes. The offering was made pursuant to our universal shelf registration statement previously filed with the Securities and Exchange Commission. For additional information, refer to *Note 5. Notes Payable*, in the Notes to our Consolidted Financial Statements.

On June 11, 2007 and June 18, 2007, we partially redeemed $300.0 million and $45.0 million, respectively, of our existing 8.0% Senior Subordinated Notes, due 2012 (the 2012 Notes) at a redemption price of 104% of the principal amount of the 2012 Notes plus accrued and unpaid interest, with net proceeds from the offering and cash on hand. As of June 30, 2007, the face amount of the 2012 Notes outstanding was $273.3 million. As a result of the partial redemption, we recorded a loss from extinguishment of debt of $15.0 million representing the redemption premium and write-off of certain debt acquisition costs, a debt premium and an unamortized derivative asset.

This transaction decreased the fair value of our total debt as of June 30, 2007 due to the 2012 Notes trading at a premium and the 2027 Notes trading at a discount.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our Management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of June 30, 2007. The term disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company s management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of our disclosure controls and procedures as of June 30, 2007, our Chief Executive Officer and Chief Financial Officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting during or subsequent to the quarter ended June 30, 2007 that has materially affected, or is reasonably likely to materially affect, such internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are a party to lawsuits and claims from time to time in the ordinary course of business. Actions currently pending are in various preliminary stages and no judgments or decisions have been rendered by hearing boards or courts in connection with such actions. After reviewing developments to date with legal counsel, our management is of the opinion that the outcome of our pending and threatened matters will not have a material adverse effect on our consolidated balance sheets, consolidated statements of operations or consolidated statements of cash flows.

ITEM 1A. RISK FACTORS

The following section entitled *Digital Conversion*, represents an update to Risk Factors contained in our Annual Report on Form 10-K for the year ended December 31, 2006.

Digital Conversion

On May 18, 2007, the FCC released a notice of proposed rulemaking commencing its third periodic review of the nation s conversion from analog to digital television. The order proposes deadlines and procedures to ensure that broadcasters complete construction of their post-transition, digital facilities by the statutory deadline of February 17, 2009. We cannot predict the outcome of this notice or how it will impact our business.

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

The annual meeting of shareholders of Sinclair Broadcast Group, Inc. was held on May 11, 2006. At the meeting, three items, as set forth in the proxy statement dated April 10, 2007, were submitted to the shareholders for a vote. In response to Proposal I, the shareholders elected all persons nominated for directors as set forth in our proxy statement dated April 10, 2007, for a term expiring May 10, 2008. Approximately 95.7% of the eligible votes were cast. The table below sets for the results of the voting for nominated directors:

Election of Directors	**For**	**Against or Withheld**
David D. Smith	382,524,983	15,806,978
Frederick G. Smith	381,994,574	16,337,387
J. Duncan Smith	381,994,074	16,337,887
Robert E. Smith	382,334,674	15,997,287
Basil A. Thomas	376,710,904	21,621,057
Lawrence E. McCanna	395,214,447	3,117,514
Daniel C. Keith	397,598,551	733,410
Martin R. Leader	397,596,749	735,212

In response to Proposal II, the shareholders ratified the appointment of Ernst & Young LLP as our independent auditors for the fiscal year ended December 31, 2007. The table below sets forth the results of the voting for Ernst & Young LLP:

For	**Against**	**Abstain**
398,276,789	30,618	24,554

In response to Proposal III, the shareholders voted to approve the material terms of executive officer performance goals to qualify as performance-based compensation. The table below sets for the results of the voting material terms of executive officer performance goals to qualify as performance-based compensation:

For	**Against**	**Abstain**
394,551,299	3,750,758	29,904

36

ITEM 6. EXHIBITS

Exhibit Number	**Description**
4.1	Indenture, dated as of May 10, 2007, between Sinclair Broadcast Group, Inc. and U.S. Bank National Association, as trustee. (Incorporated by reference from Registrant s Report on Form 8-K filed on May 11, 2007).
4.2	First Supplemental Indenture, dated as of May 10, 2007, between Sinclair Broadcast Group, Inc. and U.S. Bank National Association, as trustee. (Incorporated by reference from Registrant s Report on Form 8-K filed on May 11, 2007).
31.1	Certification by David D. Smith, as Chairman and Chief Executive Officer of Sinclair Broadcast Group, Inc., pursuant to § 302 of the Sarbanes-Oxley Act of 2002 (15 U.S.C. § 7241)
31.2	Certification by David B. Amy, as Chief Financial Officer of Sinclair Broadcast Group, Inc., pursuant to § 302 of the Sarbanes-Oxley Act of 2002 (15 U.S.C. § 7241)
32.1	Certification by David D. Smith, as Chairman and Chief Executive Officer of Sinclair Broadcast Group, Inc., pursuant to § 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C § 1350)
32.2	Certification by David B. Amy, as Chief Financial Officer of Sinclair Broadcast Group, Inc., pursuant to § 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C § 1350)

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report on Form 10-Q to be signed on its behalf by the undersigned thereunto duly authorized on the 9th day of August 2007.

SINCLAIR BROADCAST GROUP, INC.

By:	/s/ David R. Bochenek David R. Bochenek Vice President/Chief Accounting Officer

EXHIBIT INDEX

Exhibit Number	**Description**
4.1	Indenture, dated as of May 10, 2007, between Sinclair Broadcast Group, Inc. and U.S. Bank National Association, as trustee. (Incorporated by reference from Registrant s Report on Form 8-K filed on May 11, 2007).
4.2	First Supplemental Indenture, dated as of May 10, 2007, between Sinclair Broadcast Group, Inc. and U.S. Bank National Association, as trustee. (Incorporated by reference from Registrant s Report on Form 8-K filed on May 11, 2007).
31.1	Certification by David D. Smith, as Chairman and Chief Executive Officer of Sinclair Broadcast Group, Inc., pursuant to § 302 of the Sarbanes-Oxley Act of 2002 (15 U.S.C. § 7241)
31.2	Certification by David B. Amy, as Chief Financial Officer of Sinclair Broadcast Group, Inc., pursuant to § 302 of the Sarbanes-Oxley Act of 2002 (15 U.S.C. § 7241)
32.1	Certification by David D. Smith, as Chairman and Chief Executive Officer of Sinclair Broadcast Group, Inc., pursuant to § 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C § 1350)
32.2	Certification by David B. Amy, as Chief Financial Officer of Sinclair Broadcast Group, Inc., pursuant to § 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C § 1350)