NEXSTAR BROADCASTING GROUP INC
Form 10-Q
August 08, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2014

OR

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

For the transition period from to .

Commission File Number: 000-50478

NEXSTAR BROADCASTING GROUP, INC.
(Exact Name of Registrant as Specified in Its Charter)

Delaware	23-3083125
(State of Incorporation or Organization)	(I.R.S. Employer Identification No.)
545 E. John Carpenter Freeway, Suite 700, Irving, Texas	75062
(Address of Principal Executive Offices)	(Zip Code)

(972) 373-8800
(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 it was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x 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	x	Accelerated filer	¨
Non-accelerated filer (Do not check if a smaller reporting company)	¨	Smaller reporting company	¨

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

As of August 4, 2014, the registrant had 30,887,926 shares of Class A Common Stock and no shares of Class B Common Stock outstanding.

TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements

NEXSTAR BROADCASTING GROUP, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except share information, unaudited)

	June 30, 2014	December 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	$32,113	$40,028
Accounts receivable, net of allowance for doubtful accounts of $2,994 and $3,035, respectively	106,851	109,430
Deferred tax assets, net	38,585	38,585
Prepaid expenses and other current assets	12,091	13,123
Total current assets	189,640	201,166
Property and equipment, net	219,155	212,259
Goodwill	213,880	198,052
FCC licenses	253,407	222,757
FCC licenses of consolidated variable interest entities	43,102	66,263
Other intangible assets, net	178,081	162,721
Deferred tax assets, net	21,796	30,898
Other noncurrent assets, net	69,991	69,606
Total assets	$1,189,052	$1,163,722
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current liabilities:		
Current portion of debt	$6,575	$6,857
Accounts payable	12,031	10,250
Accrued expenses	33,639	24,142
Interest payable	4,878	4,661
Amounts payable to sellers for acquisition of stations	-	22,000
Other current liabilities of consolidated variable interest entities	5,331	4,923
Other current liabilities	10,746	11,089
Total current liabilities	73,200	83,922
Debt	1,081,805	1,064,262
Other noncurrent liabilities of consolidated variable interest entities	7,127	8,080
Other noncurrent liabilities	17,460	20,689
Total liabilities	1,179,592	1,176,953
Commitments and contingencies		
Stockholders' equity (deficit):		
Preferred stock - $0.01 par value, 200,000 shares authorized; none issued and outstanding at each of June 30, 2014 and December 31, 2013	-	-
Class A Common stock - $0.01 par value, 100,000,000 shares authorized; 30,887,926 and 30,598,535 shares issued and outstanding at June 30, 2014 and December 31, 2013, respectively	309	306
Class B Common stock - $0.01 par value, 20,000,000 shares authorized; none issued and outstanding at each of June 30, 2014 and December 31, 2013	-	-
	-	-

Class C Common stock - $0.01 par value, 5,000,000 shares authorized; none issued and outstanding at each of June 30, 2014 and December 31, 2013		
Additional paid-in capital	397,208	396,817
Accumulated deficit	(392,057)	(410,354)
Total Nexstar Broadcasting Group, Inc. stockholders' equity (deficit)	5,460	(13,231)
Noncontrolling interest in a consolidated variable interest entity	4,000	-
Total stockholders' equity (deficit)	9,460	(13,231)
Total liabilities and stockholders' equity (deficit)	$1,189,052	$1,163,722

The accompanying Notes are an integral part of these Condensed Consolidated Financial Statements.

1

NEXSTAR BROADCASTING GROUP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share information, unaudited)

	Three Months Ended June 30, 2014	Three Months Ended June 30, 2013	Six Months Ended June 30, 2014	Six Months Ended June 30, 2013
Net revenue	$146,930	$126,211	$280,763	$238,416
Operating expenses:				
Direct operating expenses, excluding depreciation and amortization	45,257	36,461	87,106	70,565
Selling, general, and administrative expenses, excluding depreciation and amortization	43,796	37,565	84,836	73,065
Amortization of broadcast rights	8,280	8,866	16,912	17,679
Amortization of intangible assets	6,112	6,914	12,305	14,904
Depreciation	8,543	8,213	16,962	16,193
Total operating expenses	111,988	98,019	218,121	192,406
Income from operations	34,942	28,192	62,642	46,010
Interest expense, net	(15,339)	(16,903)	(30,509)	(33,452)
Loss on extinguishment of debt	(71)	-	(71)	-
Other expenses	(127)	(84)	(255)	(168)
Income before income taxes	19,405	11,205	31,807	12,390
Income tax expense	(8,461)	(4,838)	(13,510)	(5,318)
Net income	$10,944	$6,367	$18,297	$7,072
Net income per common share:				
Basic	$0.36	$0.22	$0.60	$0.24
Diluted	$0.34	$0.20	$0.57	$0.23
Weighted average number of common shares outstanding:				
Basic	30,641	29,604	30,622	29,533
Diluted	31,932	31,325	31,921	31,189
Dividends declared per common share	$0.15	$0.12	$0.30	$0.24

The accompanying Notes are an integral part of these Condensed Consolidated Financial Statements.

NEXSTAR BROADCASTING GROUP, INC.
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIT)
For the Six Months Ended June 30, 2014
(in thousands, except share information, unaudited)

	Preferred Stock		Common Stock Class A		Common Stock Class B		Common Stock Class C		Additional Paid-In Capital	Accumulated Deficit	Noncontrolling interest in a consolidated variable interest entity	Total Stockholders' Equity (Deficit)
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount				
Balances as of December 31, 2013	-	$ -	30,598,535	$ 306	-	$ -	-	$ -	$ 396,817	$ (410,354)	$ -	$ (13,231)
Stock-based compensation expense	-	-	-	-	-	-	-	-	3,556	-	-	3,556
Exercise of stock options	-	-	289,391	3	-	-	-	-	1,281	-	-	1,284
Excess tax benefit from stock option exercises	-	-	-	-	-	-	-	-	4,734	-	-	4,734
Common stock dividends declared	-	-	-	-	-	-	-	-	(9,180)	-	-	(9,180)
Consolidation of a variable interest entity	-	-	-	-	-	-	-	-	-	-	4,000	4,000
Net income	-	-	-	-	-	-	-	-	-	18,297	-	18,297
Balances as of June 30, 2014	-	$ -	30,887,926	$ 309	-	$ -	-	$ -	$ 397,208	$ (392,057)	$ 4,000	$ 9,460

The accompanying Notes are an integral part of these Condensed Consolidated Financial Statements.

NEXSTAR BROADCASTING GROUP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands, unaudited)

	Six Months Ended June 30, 2014	Six Months Ended June 30, 2013
Cash flows from operating activities:		
Net income	$18,297	$7,072
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for bad debts	1,626	871
Amortization of broadcast rights, excluding barter	5,731	6,280
Depreciation of property and equipment	16,962	16,193
Amortization of intangible assets	12,305	14,904
Loss on asset disposal, net	146	2
Amortization of debt financing costs	1,272	1,022
Amortization of debt discount	79	657
Loss on extinguishment of debt	71	-
Stock-based compensation expense	3,556	994
Deferred income taxes	12,044	4,711
Payments for broadcast rights	(6,078)	(7,379)
Deferred gain recognition	(218)	(218)
Amortization of deferred representation fee incentive	(410)	(410)
Excess tax benefit from stock option exercises	(4,734)	(6,860)
Changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable	3,625	(30,411)
Prepaid expenses and other current assets	(476)	113
Other noncurrent assets	152	13
Accounts payable and accrued expenses	8,629	4,269
Interest payable	217	(391)
Other liabilities of consolidated variable interest entities	821	780
Other noncurrent liabilities	(197)	(410)
Net cash provided by operating activities	73,420	11,802
Cash flows from investing activities:		
Purchases of property and equipment	(9,065)	(10,012)
Deposits and payments for acquisitions, net of cash acquired	(85,298)	(154,620)
Proceeds from disposals of property and equipment	33	36
Net cash used in investing activities	(94,330)	(164,596)
Cash flows from financing activities:		
Repayments of long-term debt	(7,763)	(32,875)
Payments for debt financing costs	(357)	(1,769)
Proceeds from long-term debt	24,938	168,875
Purchase of treasury stock	-	(8,422)
Proceeds from exercise of stock options	1,284	4,308
Excess tax benefit from stock option exercises	4,734	6,860
Common stock dividends paid	(9,180)	(7,057)
Payments for capital lease obligations	(661)	(500)
Net cash provided by financing activities	12,995	129,420
Net decrease in cash and cash equivalents	(7,915)	(23,374)
Cash and cash equivalents at beginning of period	40,028	68,999

Cash and cash equivalents at end of period	$32,113	$45,625
Supplemental information:		
Interest paid	$28,939	$32,072
Income taxes paid, net of refunds	$1,441	$2,123
Non-cash investing and financing activities:		
Accrued purchases of property and equipment	$1,900	$792
Noncash purchases of property and equipment	$961	$2,661
Accrued debt financing costs	$-	$485

The accompanying Notes are an integral part of these Condensed Consolidated Financial Statements.

NEXSTAR BROADCASTING GROUP, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Organization and Business Operations

As of June 30, 2014, Nexstar Broadcasting Group, Inc. and its wholly-owned subsidiaries (“Nexstar”) owned, operated, programmed or provided sales and other services to 80 television stations and 20 digital multicast channels, including those owned by Mission Broadcasting, Inc. (“Mission”), in 46 markets in the states of Illinois, Indiana, Maryland, Missouri, Montana, Tennessee, Texas, Pennsylvania, Louisiana, Arkansas, Alabama, New York, Florida, Wisconsin, Michigan, Utah, Vermont, California, Iowa and Colorado. The stations are affiliates of ABC (20 stations), NBC (16 stations), FOX (14 stations), CBS (16 stations), The CW (6 stations and 2 digital multicast channels), MyNetworkTV (6 stations and 2 digital multicast channels), Telemundo (one station and one digital multicast channel), Bounce TV (9 digital multicast channels), Me-TV (3 digital multicast channels), LiveWell (2 digital multicast channels), LATV (one digital multicast channel) and one independent station. Through various local service agreements, Nexstar provided sales, programming and other services to 22 stations and 5 digital multicast channels owned and/or operated by independent third parties. Nexstar operates in one reportable television broadcasting segment. The economic characteristics, services, production process, customer type and distribution methods for Nexstar’s operations are substantially similar and are therefore aggregated as a single reportable segment.

2. Summary of Significant Accounting Policies

Principles of Consolidation

The Condensed Consolidated Financial Statements include the accounts of Nexstar and the accounts of independently-owned variable interest entities (“VIEs”), including Mission, for which Nexstar is the primary beneficiary. Nexstar and the consolidated VIEs are collectively referred to as the “Company”. Where the assets of the consolidated VIEs are not available to be used to settle the obligations of Nexstar, they are presented separately as assets of the consolidated VIEs on the Condensed Consolidated Balance Sheets. Similarly, where the creditors of the consolidated VIEs do not have recourse to the general credit of Nexstar, the related liabilities are presented separately as liabilities of the consolidated VIEs on the Condensed Consolidated Balance Sheets. Noncontrolling interest represents the owner’s share of the equity in one of Nexstar’s consolidated VIEs and is presented as a component separate from Nexstar Broadcasting Group, Inc. stockholders’ equity (deficit). Nexstar management evaluates each arrangement that may include variable interests and determines the need to consolidate an entity where it determines Nexstar is the primary beneficiary of a VIE in accordance with related authoritative literature and interpretive guidance. Certain stations owned by Citadel Communications, L.P. and its related entities (“Citadel”) were considered VIEs as of December 31, 2013. Nexstar completed the acquisition of these stations from Citadel during the first quarter of 2014 and they are no longer VIEs as of June 30, 2014.

All intercompany account balances and transactions have been eliminated in consolidation.

Liquidity

Nexstar is highly leveraged, which makes it vulnerable to changes in general economic conditions. Nexstar’s ability to repay or refinance its debt will depend on, among other things, financial, business, market, competitive and other conditions, many of which are beyond Nexstar’s control.

Interim Financial Statements

The Condensed Consolidated Financial Statements as of June 30, 2014 and for the three and six months ended June 30, 2014 and 2013 are unaudited. However, in the opinion of management, such financial statements include all adjustments (consisting solely of normal recurring adjustments) necessary for the fair statement of the financial information included herein in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") and pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC"). The preparation of the Condensed Consolidated Financial Statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenue and expenses during the period. Actual results could differ from those estimates. Results of operations for interim periods are not necessarily indicative of results for the full year. These Condensed Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and related Notes included in Nexstar's Annual Report on Form 10-K for the year ended December 31, 2013. The balance sheet as of December 31, 2013 has been derived from the audited financial statements as of that date, but does not include all of the information and footnotes required by U.S. GAAP for complete financial statements.

Mission

Mission is included in these Consolidated Financial Statements because Nexstar is deemed under U.S. GAAP to have a controlling financial interest in Mission as a VIE for financial reporting purposes as a result of (1) local service agreements Nexstar has with the Mission stations, (2) Nexstar's guarantee of the obligations incurred under Mission's senior secured credit facility (see Note 6), (3) Nexstar having power over significant activities affecting Mission's economic performance, including budgeting for advertising revenue, advertising sales and hiring and firing of sales force personnel and (4) purchase options granted by Mission which permit Nexstar to acquire the assets and assume the liabilities of each Mission station, subject to Federal Communications Commission ("FCC") consent. The purchase options are freely exercisable or assignable by Nexstar without consent or approval by Mission for consideration equal to the greater of (1) seven times the station's cash flow, as defined in the option agreement, less the amount of its indebtedness, as defined in the option agreement, or (2) the amount of its indebtedness. Additionally, Nexstar has an option to purchase any or all of Mission's stock, subject to FCC consent, for a price equal to the pro rata portion of the greater of (1) five times the stations' cash flow, as defined in the agreement, reduced by the amount of indebtedness, as defined in the agreement, or (2) $100,000. These option agreements (which expire on various dates between 2014 and 2023) are freely exercisable or assignable by Nexstar without consent or approval by Mission or its shareholders. The Company expects these option agreements to be renewed upon expiration. As of June 30, 2014, the assets of Mission consisted of current assets of $17.3 million (excluding broadcast rights and amounts due from Nexstar), broadcast rights of $1.8 million, FCC licenses of $41.6 million, goodwill of $32.5 million, other intangible assets of $22.6 million, property and equipment of $25.4 million, noncurrent deferred tax assets of $21.7 million and other noncurrent assets of $7.0 million. Substantially all of Mission's assets, except for its FCC licenses, collateralize its secured debt obligation. See Note 9 for a presentation of condensed consolidating financial information of the Company, which includes the accounts of Mission.

Nexstar has entered into local service agreements with Mission to provide sales and operating services to the Mission stations. The following table summarizes the various local service agreements Nexstar had in effect with Mission as of June 30, 2014:

Service Agreements	Mission Stations
TBA Only(1)	WFXP and KHMT
SSA & JSA(2)	KJTL, KJBO-LP, KLRT, KASN, KOLR, KCIT, KCPN-LP, KAMC, KRBC, KSAN, WUTR, WAWV, WYOU, KODE, WTVO, KTVE, WTVW and WVNY

(1) Nexstar has a time brokerage agreement ("TBA") with each of these stations which allows Nexstar to program most of each station's broadcast time, sell each station's advertising time and retain the advertising revenue generated in exchange for monthly payments to Mission.

(2) Nexstar has both a shared services agreement ("SSA") and a joint sales agreement ("JSA") with each of these stations. Each SSA allows the Nexstar station in the market to provide services including news production, technical maintenance and security, in exchange for Nexstar's right to receive certain payments from Mission as described in the SSAs. Each JSA permits Nexstar to sell the station's advertising time and retain a percentage of the net revenue from the station's advertising time in return for monthly payments to Mission of the remaining percentage of net revenue as described in the JSAs.

Nexstar's ability to receive cash from Mission is governed by these local service agreements. Under the local service agreements, Nexstar has received substantially all of Mission's available cash, after satisfaction of operating costs and debt obligations. Nexstar anticipates it will continue to receive substantially all of Mission's available cash, after satisfaction of operating costs and debt obligations. In compliance with FCC regulations for both Nexstar and Mission, Mission maintains complete responsibility for and control over programming, finances, personnel and operations of its stations.

Variable Interest Entities

Nexstar may determine that a station is a VIE as a result of local service agreements entered into with the owner-operator of the station. The term local service agreement generally refers to a contract between separately owned television stations serving the same market, whereby the owner-operator of one station contracts with the owner-operator of the other station to provide it with administrative, sales and other services required for the operation of its station. Nevertheless, the owner-operator of each station retains control and responsibility for the operation of its station, including ultimate responsibility over all programming broadcast on its station. In addition to those with Mission, Nexstar has VIEs in connection with local service agreements entered into with stations as discussed below.

Nexstar determined that it has a variable interest in KFQX, the FOX affiliate in the Grand Junction, Colorado market. Effective June 13, 2014, upon Nexstar's acquisition of KREX (See Note 3), Nexstar assumed the contractual obligations under the station's TBA with KFQX, to program most of KFQX's broadcast time, sell its advertising time and retain the advertising revenue. Nexstar evaluated the business arrangements with KFQX and determined that it is the primary beneficiary of the variable interest because it has the ultimate power to direct the activities that most significantly impact the economic performance of the station including developing the annual operating budget, programming and oversight and control of sales management personnel. Therefore, Nexstar consolidated KFQX.

As of June 30, 2014, the assets of KFQX consisted of FCC license of $1.5 million, goodwill of $0.7 million and other intangible assets of $1.8 million. The consolidation of the assets and liabilities of the station into Nexstar resulted in a noncontrolling interest of $4.0 million, representing the interest held by the owners of KFQX as of June 13, 2014. See Note 3 for additional information. During the period June 13, 2014 to June 30, 2014, the station had no significant revenue and operating results.

Nexstar has also determined that it has a variable interest in WYZZ, the FOX affiliate in Peoria, Illinois owned by Cunningham Broadcasting Corporation ("Cunningham"). Nexstar has evaluated its arrangement with Cunningham and has determined that it is not the primary beneficiary of the variable interest because it does not have the ultimate power to direct the activities that most significantly impact the economic performance of the station, including developing the annual operating budget, programming and oversight and control of sales management personnel. Therefore, Nexstar has not consolidated this station. Under the outsourcing agreement with Cunningham, Nexstar pays for certain operating expenses of WYZZ, and therefore may have unlimited exposure to any potential operating losses. Nexstar's management believes that Nexstar's minimum exposure to loss under the Cunningham outsourcing agreement consists of the fees paid to Cunningham. Additionally, Nexstar indemnifies the owners of WYZZ from and against all liability and claims arising out of or resulting from its activities, acts or omissions in connection with the agreement. The maximum potential amount of future payments Nexstar could be required to make for such indemnification is undeterminable at this time. In 2013, WYZZ was owned by Sinclair Broadcast Group, Inc. ("Sinclair") and sold to Cunningham in November 2013, and Nexstar had another variable interest in WUHF in Rochester, New York, also owned by Sinclair, which terminated on December 31, 2013. Under the outsourcing agreements, Nexstar made payments to Cunningham of $0.3 million and $0.6 million for the three and six months ended June 30, 2014, respectively, and to Sinclair of $1.3 million and $2.4 million for the three and six months ended June 30, 2013, respectively. Nexstar had a balance due to Cunningham and Sinclair for fees under these arrangements in the amount of $0.3 million and $1.8 million as of June 30, 2014 and December 31, 2013, respectively, and had receivables for advertising aired on these stations in the amount of $0.6 million and $2.5 million, respectively.

Nexstar had variable interests in the newly acquired stations from Citadel as a result of TBAs effective September 16, 2013. Nexstar evaluated the business arrangements with these stations and determined that it was the primary beneficiary of the variable interests because it had the ultimate power to direct the activities that most significantly impact the economic performance of the stations including developing the annual operating budget, programming and oversight and control of sales management personnel. Therefore, Nexstar consolidated these stations as of September 16, 2013 under authoritative guidance related to the consolidation of variable interest entities. Nexstar completed its acquisition of the Citadel stations in March 2014. Thus, Nexstar no longer has variable interests in these stations. See Note 3 for additional information.

Financial Instruments

The carrying amounts of cash and cash equivalents, accounts receivable, broadcast rights payable, accounts payable and accrued expenses approximate fair value due to their short-term nature. See Note 6 for fair value disclosures related to the Company's debt.

Income Per Share

Basic income per share is computed by dividing the net income by the weighted-average number of common shares outstanding during the period. Diluted income per share is computed using the weighted-average number of common shares and potentially dilutive common shares outstanding during the period. Potentially dilutive common shares are calculated using the treasury stock method. They consist of stock options outstanding during the period and reflect the potential dilution that could occur if common stock were issued upon exercise of stock options. The following table shows the amounts used in computing the Company's diluted shares (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Weighted average shares outstanding - basic	30,641	29,604	30,622	29,533
Effect of dilutive stock options	1,291	1,721	1,299	1,656
Weighted average shares outstanding - diluted	31,932	31,325	31,921	31,189

Stock options to purchase a weighted average of 762,000 shares and 691,000 shares of Class A common stock were excluded from the computation of diluted earnings per share for the three and six months ended June 30, 2014, respectively, because their impact would have been antidilutive. No stock options were excluded from the computation of dilutive earnings per share for the three and six months ended June 30, 2013.

Basis of Presentation

Certain prior year financial statement amounts have been reclassified to conform to the current year presentation.

The Company has also revised the previously reported condensed consolidated statement of cash flows for the six months ended June 30, 2013. Non-cash purchases of property and equipment of $2.5 million which occurred during the three months ended March 31, 2013 were erroneously included within purchases of property and equipment, requiring net cash used in investing activities to be decreased by $2.5 million for each of the three months ended March 31, 2013, the six months ended June 30, 2013 and the nine months ended September 30, 2013. Additionally, certain payments for capital lease obligations were erroneously included in operating activities, requiring net cash provided by financing activities to be decreased by $0.2 million for the three months ended March 31, 2013, $0.5 million for the six months ended June 30, 2013 and $0.7 million for the nine months ended September 30, 2013. The above adjustments result in a decrease in net cash provided by operating activities of $2.3 million for the three months ended March 31, 2013, $2.0 million for the six months ended June 30, 2013 and $1.8 million for the nine months ended September 30, 2013. The Company does not believe these misclassifications were material to the previously reported interim financial statements. There was no impact on the consolidated statement of cash flows for the year ended December 31, 2013.

The above adjustments had no effect on net income or stockholders' equity (deficit) as previously reported.

Recent Accounting Pronouncements

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606), an accounting standard update that amends the accounting guidance on revenue recognition. The amendments in this accounting standard update are intended to provide a more robust framework for addressing revenue issues, improve comparability of revenue recognition practices, and improve disclosure requirements. The amendments in this accounting standard update are effective for interim and annual reporting periods beginning after December 15, 2016.

Early application is not permitted. We are currently evaluating the impact of the provisions of the accounting standard update.

In April 2014, the FASB issued ASU No. 2014-08, Presentation of Financial Statements (Topic 205) and Property, Plant and Equipment (Topic 360) ("ASU 2014-08"). ASU 2014-08 provides guidance that raises the threshold for disposals to qualify as a discontinued operation. ASU 2014-08 also allows companies to have significant continuing involvement and continuing cash flows with the discontinued operation and requires additional disclosures for discontinued operation and new disclosures for individually material disposal transactions that do not meet the definition of a discontinued operation. The update is effective for the years beginning after December 15, 2014. Early application is permitted. The Company does not expect the implementation of this standard to have a material impact on its financial position or results of operations.

3. Acquisitions

Citadel

On September 16, 2013, Nexstar entered into definitive agreements with Citadel to acquire 3 television stations in 3 markets along with the respective network affiliation agreements: WOI, the ABC affiliate in the Des Moines, Iowa market, WHBF, the CBS affiliate in the Quad Cities, Iowa market and KCAU, the ABC affiliate in the Sioux City, Iowa market. Nexstar acquired the assets of KCAU and WHBF and the outstanding equity of WOI for a total of $87.9 million in cash. In 2013, Nexstar made payments of $44.9 million to acquire the assets excluding FCC licenses and real property interests of KCAU and WHBF and $21.0 million as an upfront payment to acquire the outstanding equity of WOI, funded by a combination of borrowings under Nexstar's revolving credit facility and cash on hand. Nexstar also entered into TBAs with these stations, effective September 16, 2013, to provide programming and sales services to these stations during the pendency of the FCC approval of the acquisitions. On March 5, 2014, Nexstar received approval from the FCC to purchase the remaining assets of KCAU and WHBF and to acquire the outstanding equity of WOI. On March 13, 2014, Nexstar completed the acquisition of FCC licenses and real property interests of KCAU and WHBF and the outstanding equity of WOI and paid the remaining purchase price of $22.0 million, funded by cash on hand. In addition, Nexstar finalized the fair values of the assets acquired and recorded a decrease in goodwill of $19 thousand. The TBAs entered into with KCAU, WHBF and WOI were also terminated as of this date. The acquisitions allow Nexstar entrance into 3 new markets. During the six months ended June 30, 2014, transaction costs relating to these acquisitions, including legal and professional fees of $0.1 million, were expensed as incurred.

The fair values of the assets acquired and liabilities consolidated upon becoming a VIE are as follows (in thousands):

Broadcast rights	$269	
Prepaid expenses and other current assets	305	
Property and equipment	10,613	
FCC licenses	24,700	
Network affiliation agreements	26,129	
Other intangible assets	3,398	
Goodwill	30,195	
Other assets	1,807	
Total assets acquired	97,416	
Less: Broadcast rights payable	(269	)
Less: Accounts payable and accrued expenses	(397	)
Less: Deferred tax liabilities	(8,801	)
Net assets acquired	$87,949	

The fair value assigned to goodwill is attributable to future expense reductions utilizing management's leverage in programming and other station operating costs. The intangible assets related to the network affiliation agreements are amortized over 15 years. Other intangible assets are amortized over an estimated weighted average useful life of one year.

The $10.7 million goodwill and $14.7 million FCC licenses attributable to KCAU and WHBF are deductible for tax purposes. WOI's goodwill, FCC license and network affiliation agreements of $19.5 million, $10.0 million and $11.0 million, respectively, will not be deductible for tax purposes until such time that the station may be disposed.

The acquired stations' net revenue of $6.0 million and net income of $0.9 million during the three months ended June 30, 2014 and net revenue of $11.7 million and net income of $1.1 million during the six months ended June 30, 2014 have been included in the accompanying Condensed Consolidated Statements of Operations.

Internet Broadcasting Systems

Effective April 1, 2014, Nexstar acquired the assets of Internet Broadcasting Systems, Inc. ("IBS"), a digital publishing platform and digital agency services provider, for a total purchase price of $18.8 million, funded by cash on hand. The acquisition broadens Nexstar's digital media portfolio with technologies and offerings that are complementary to Nexstar's digital businesses and multi-screen strategies. During the six months ended June 30, 2014, transaction costs relating to this acquisition, including legal and professional fees of $0.1 million, were expensed as incurred. Additionally, employment charges of $0.5 million were incurred and included in the condensed consolidated statement of operations during the three months ended June 30, 2014.

The estimated fair values of the assets acquired and liabilities assumed in the acquisition are as follows (in thousands):

Accounts receivable	$631
Prepaid expenses and other current assets	154
Property and equipment	2,851
Software and other intangible assets	10,853
Goodwill	6,396
Total assets acquired	20,885
Less: Accounts payable and accrued expenses	(1,119)
Less: Deferred revenue	(976)
Net assets acquired	$18,790

The fair value assigned to goodwill is attributable to future expense reductions utilizing management's leverage in operating costs. Goodwill is deductible for tax purposes. Software and other intangible assets are amortized over an estimated weighted average useful life of five years.

IBS' net revenue of $5.3 million and net loss of $0.8 million for the period April 1, 2014 to June 30, 2014 have been included in the accompanying Condensed Consolidated Statements of Operations.

ETG

On May 15, 2014, Nexstar acquired the outstanding equity of Enterprise Technology Group, Inc. ("ETG"), a digital content management firm that offers solutions for media companies to build a presence on the web and in the mobile content sector, for a total purchase price of $7.2 million, funded by cash on hand. The acquisition broadens Nexstar's digital media portfolio with technologies and offerings that are complementary to Nexstar's digital businesses and multi-screen strategies. No significant transaction costs relating to this acquisition were incurred during the three and six months ended June 30, 2014.

The estimated fair values of the assets acquired and liabilities assumed in the acquisition are as follows (in thousands):

Cash	$433
Accounts receivable	210
Prepaid expenses and other current assets	84
Property and equipment	75
Software and other intangible assets	5,452
Goodwill	3,309
Total assets acquired	9,563
Less: Accounts payable and accrued expenses	(368)

Less: Deferred revenue	(219)
Less: Deferred tax liabilities	(1,792)
Net assets acquired	$7,184

The fair value assigned to goodwill is attributable to future expense reductions utilizing management's leverage in operating costs. Goodwill will not be deductible for tax purposes until such time that ETG may be disposed by Nexstar. Software and other intangible assets are amortized over an estimated weighted average useful life of five years.

ETG's net revenue of $0.5 million and net loss of $0.1 million for the period May 15, 2014 to June 30, 2014 have been included in the accompanying Condensed Consolidated Statements of Operations.

Gray TV

Effective June 13, 2014, Nexstar completed the acquisition of the outstanding equity of WMBB, the ABC affiliate in the Panama City, Florida market, KREX/KREG/KREY, the CBS affiliates and KGJT, the MyNetworkTV affiliate, all in the Grand Junction, Colorado market, from Gray Television Group, Inc. ("Gray TV") for $34.5 million in cash, funded by a combination of proceeds from borrowings under Nexstar's Term Loan A Facility (See Note 6) and cash on hand. Additionally, the amount of unpaid working capital adjustment of $0.5 million is included in accrued expenses of the condensed consolidated balance sheet as of June 30, 2014. Both KREG and KREY operate as satellite stations of KREX. This acquisition allows Nexstar entrance into 2 new markets. No significant transaction costs were incurred in connection with this acquisition during the three and six months ended June 30, 2014.

The estimated fair values of the assets acquired and liabilities assumed in the acquisition are as follows (in thousands):

Accounts receivable	$1,831
Broadcast rights	98
Prepaid expenses and other current assets	74
Property and equipment	12,513
FCC licenses	5,950
Network affiliation agreements	7,719
Other intangible assets	1,878
Goodwill	5,444
Total assets acquired	35,507
Less: Broadcast rights payable	(98)
Less: Accounts payable and accrued expenses	(361)
Net assets acquired	$35,048

The fair value assigned to goodwill is attributable to future expense reductions utilizing management's leverage in programming and other station operating costs. The goodwill and FCC licenses are deductible for tax purposes. The intangible asset related to the network affiliation agreements acquired is amortized over 15 years. Other intangible assets are amortized over an estimated weighted average useful life of 1.5 years.

The acquired stations' net revenue of $0.5 million and net income of $0.1 million for the period June 13, 2014 to June 30, 2014 have been included in the accompanying Condensed Consolidated Statements of Operations.

On December 18, 2013, Mission entered into a definitive agreement with Excalibur Broadcasting, LLC ("Excalibur") to acquire KFQX, the FOX affiliate in the Grand Junction, Colorado market. The acquisition will allow Mission entrance into this market. The FCC has not granted consent to Mission's acquisition of KFQX from Excalibur. On May 27, 2014, Mission and Excalibur terminated their purchase agreement and Mission assumed Excalibur's rights, title and interest in an existing purchase agreement with Parker Broadcasting, Inc. ("Parker") to acquire KFQX for $4.0 million. In connection with this restructuring, Mission paid Parker a deposit of $3.2 million on June 13, 2014. The acquisition is subject to FCC approval and other customary conditions and Mission is projecting it to close in 2014. Mission expects to fund the remaining purchase price through cash generated from operations prior to closing. No significant transaction costs were incurred in connection with this acquisition during the three and six months ended June 30, 2014.

As discussed in Note 2, Nexstar is the primary beneficiary of the variable interests in KFQX and has consolidated this station into its Condensed Consolidated Financial Statements beginning June 13, 2014. Nexstar is in the process of determining the fair values of the net assets of the consolidated VIE and has recorded the following estimated beginning assets and liabilities of the station (in thousands):

FCC licenses of a consolidated VIE	$1,539
Network affiliation agreements	1,744
Other intangible assets	19
Goodwill	698
Total assets of a consolidated VIE	4,000
Less: Accounts payable and accrued expenses	(13)
Net assets of a consolidated VIE	$3,987

The fair value assigned to goodwill is attributable to future expense reductions utilizing management's leverage in programming and other station operating costs. Mission has not yet evaluated the tax deductibility of the values assigned to goodwill and FCC licenses upon completion of the acquisition. The intangible asset related to the network affiliation agreements is amortized over 15 years. Other intangible assets are amortized over an estimated weighted average useful life of 11 months.

Pending Acquisitions

CCA/White Knight

On April 24, 2013, Nexstar and Mission entered into a stock purchase agreement to acquire the stock of privately-held Communications Corporation of America ("CCA") and White Knight Broadcasting ("White Knight"), the owners of 19 television stations in 10 markets, for a total consideration of $270.0 million, subject to adjustments for working capital. Pursuant to the stock purchase agreement, Nexstar agreed to purchase all the outstanding equity of CCA and Mission agreed to purchase all the outstanding equity of White Knight. In addition, Nexstar and Mission each entered into purchase agreements with Rocky Creek Communications, Inc. ("Rocky Creek") with respect to the sale of one station each to Rocky Creek.

Due to certain subsequent changes in FCC rules and policies (see Note 7), the parties have agreed to restructure the transaction such that Nexstar will acquire the stock of CCA as well as CCA's rights and obligations with respect to certain operating agreements between CCA and White Knight. Mission and Rocky Creek will no longer participate in the acquisition and White Knight will continue to own and operate its stations subject to the operating agreements as assumed by Nexstar. Additionally, simultaneous with its acquisition of the CCA stock, Nexstar will sell three stations currently owned by CCA to third parties other than Mission and Rocky Creek.

On June 4, 2014, Mission entered into an assignment and assumption agreement with Marshall Broadcasting Group, Inc. ("Marshall") pursuant to which Mission assigned its rights and obligations under purchase agreements with Nexstar to Marshall with respect to television stations KPEJ, the FOX affiliate serving the Odessa-Midland market, and KMSS, the FOX affiliate serving the Shreveport market, which currently are owned by CCA, for $ 43.3 million, subject to FCC consent. Marshall and Nexstar have requested a waiver of the FCC's new attribution rule with respect to JSAs and, subject to grant of the waiver, will enter into local service agreements with Nexstar which are substantially similar to the local service agreements between Nexstar and Mission.

On July 29, 2014, Nexstar entered into a purchase agreement with Bayou City Broadcasting Evansville, Inc. ("BCB") pursuant to which Nexstar will, simultaneous with the CCA closing, sell CCA television station WEVV, the CBS affiliate serving the Evansville market, to BCB, for $18.6 million, subject to FCC consent. There will be no relationship between Nexstar and BCB or their respective stations upon BCB's purchase of WEVV.

Upon consummation of the above transactions, Nexstar will acquire 13 television stations, one of which will be sold to BCB and two of which will be sold to Marshall and White Knight will continue to own its television stations. Nexstar and Marshall will enter into local service agreements for KPEJ and KMSS and Nexstar will assume CCA's rights and obligations under CCA's local service agreements with White Knight. These transactions will allow the Company entrance into 7 new markets and create duopolies in 4 markets. The stations impacted are as follows:

Market	Market Rank	Station	Affiliation
Nexstar:			
Harlingen-Weslaco-Brownsville-McAllen, TX	86	KVEO	NBC/Estrella
Waco-Temple-Bryan, TX	88	KWKT	FOX/MyNetworkTV/ Estrella
		KYLE	FOX/MyNetworkTV/ Estrella
El Paso, TX	91	KTSM	NBC/Estrella
Baton Rouge, LA	94	WGMB	FOX
		WBRL-CD	The CW
Tyler-Longview, TX	107	KETK	NBC/Estrella
Lafayette, LA	124	KADN	FOX
		KLAF-LD	MyNetworkTV
Alexandria, LA	179	WNTZ	FOX/MyNetworkTV
Marshall:			
Shreveport, LA	83	KMSS	FOX
Odessa-Midland, TX	152	KPEJ	FOX/Estrella
White Knight:			
Baton Rouge, LA	94	WVLA	NBC
		KZUP-CD	RTV
Tyler-Longview, TX	107	KFXK	FOX
		KFXL-LD	FOX
		KLPN-LD	MyNetworkTV
Shreveport, LA	83	KSHV	MyNetworkTV
BCB:			
Evansville, IN	104	WEVV	CBS

A deposit of $27.0 million was paid in April 2013 upon signing the agreement, funded by a combination of borrowings under Nexstar's revolving credit facility and cash on hand. The remaining purchase price is expected to be funded through cash generated from operations prior to closing and borrowings under Nexstar's existing credit facilities. Marshall will fund the payment of purchase price to Nexstar through future credit transactions which Nexstar has agreed to guarantee. BCB will fund its acquisition of WEVV separately and make a payment to Nexstar in the amount of the purchase price. The acquisitions are subject to FCC approval, Department of Justice ("DOJ") approval and other customary conditions and Nexstar projects them to close in 2014. During the six months ended June 30, 2014, transaction costs relating to these acquisitions, including legal fees of $0.1 million, were expensed as incurred.

Stainless

On September 13, 2013, Mission entered into a definitive agreement to acquire WICZ, the FOX affiliate, and WBPN-LP, the MyNetworkTV affiliate, both in the Binghamton, New York market, from Stainless Broadcasting, L.P. (“Stainless”). The acquisition will allow Mission entrance into this market. Under the terms of the purchase agreement, Mission will acquire the assets of WICZ and WBPN-LP for $15.3 million in cash, subject to adjustments for working capital. A deposit of $0.2 million was paid in September 2013 upon signing the agreement. The remaining purchase price is expected to be funded by Mission through borrowings under its existing credit facility and cash on hand. The acquisition is subject to FCC approval and other customary conditions and Mission projects it to close in 2014. During the three and six months ended June 30, 2014, transactions costs relating to this acquisition, including legal and professional fees of $0.1 million and $0.4 million, respectively, were expensed as incurred.

Grant

On November 6, 2013, Nexstar entered into a stock purchase agreement to acquire the outstanding equity of privately-held Grant Company, Inc. (“Grant”), the owner of 7 television stations in 4 markets, for $87.5 million in cash, subject to adjustments for working capital. The stations to be acquired, along with their respective network affiliation agreements, are WFXR, the FOX affiliate and WWCW, The CW affiliate, both serving the Roanoke, Virginia market, WZDX, the FOX affiliate in the Huntsville, Alabama market, KGCW, The CW affiliate and KLJB, the FOX affiliate, both in the Quad Cities, Iowa market and WLAX/WEUX, the FOX affiliates, in the LaCrosse, Wisconsin market. WEUX operates as a satellite station of WLAX. Simultaneous with this acquisition, Nexstar entered into a purchase agreement with Mission pursuant to which Mission would acquire KLJB from Nexstar and, upon consummation, enter into local service agreements with Nexstar.

Due to certain subsequent changes in FCC rules and policies (see Note 7), on June 4, 2014, Mission entered into an assignment and assumption agreement with Marshall pursuant to which Mission assigned its rights and obligations under its purchase agreement with Nexstar to Marshall and Marshall will acquire KLJB for $15.3 million, subject to FCC consent. Marshall and Nexstar have requested a waiver of the FCC’s new attribution rule with respect to joint sales agreements and, subject to grant of the waiver, will enter into local service agreements with Nexstar which are substantially similar to the local service agreements between Nexstar and Mission.

The acquisition will allow Nexstar entrance into 3 new markets and duopolies in two markets. A deposit of $8.5 million was paid by Nexstar in November 2013 upon signing the stock purchase agreement, funded by cash on hand. The remaining purchase price is expected to be funded through cash generated from operations prior to closing and borrowings under Nexstar’s existing credit facilities. Marshall will fund the payment of purchase price to Nexstar through future credit transactions which Nexstar has agreed to guarantee. The acquisitions are subject to FCC approval and other customary conditions and Nexstar is projecting them to close in 2014. No significant transaction costs were incurred in connection with this acquisition during the three and six months ended June 30, 2014.

Unaudited Pro Forma Information

The acquisitions of Citadel stations, Gray TV stations and ETG are immaterial, both individually and in aggregate. Therefore, pro forma information has not been provided for these acquisitions. The following unaudited pro forma information has been presented as if the acquisition of IBS had occurred on January 1, 2013 (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Net revenue	$146,930	$131,306	$286,213	$248,166
Income before income taxes	19,521	10,512	31,449	10,427
Net income	11,012	5,926	18,087	5,822
Net income per common share - basic	0.36	0.20	0.59	0.20
Net income per common share - diluted	0.34	0.19	0.57	0.19

The above selected unaudited pro forma information is presented for illustrative purposes only and is not necessarily indicative of results of operations in future periods or results that would have been achieved had Nexstar owned IBS during the specified periods.

4. Intangible Assets and Goodwill

Intangible assets subject to amortization consisted of the following (in thousands):

	Estimated useful life, in years	June 30, 2014 Gross	Accumulated Amortization	Net	December 31, 2013 Gross	Accumulated Amortization	Net
Network affiliation agreements	15	$ 451,274	$ (300,868)	$ 150,406	$ 441,811	$ (291,154)	$ 150,657
Other definite-lived intangible assets	1-15	51,844	(24,169)	27,675	33,642	(21,578)	12,064
Other intangible assets		$ 503,118	$ (325,037)	$ 178,081	$ 475,453	$ (312,732)	$ 162,721

The following table presents the Company’s estimate of amortization expense for the remainder of 2014, each of the five succeeding years ended December 31 and thereafter for definite-lived intangible assets as of June 30, 2014 (in thousands):

Remainder of 2014	$ 12,868
2015	24,384
2016	19,452
2017	18,540
2018	16,186
2019	12,733
Thereafter	73,918
	$ 178,081

The amounts recorded to goodwill and FCC licenses were as follows (in thousands):

	Goodwill Gross	Accumulated Impairment	Net	FCC Licenses Gross	Accumulated Impairment	Net
Balance as of December 31, 2013	$ 244,043	$ (45,991)	$ 198,052	$ 338,441	$ (49,421)	$ 289,020
Acquisitions (See Note 3):						
Citadel	(19)	-	(19)	-	-	-
IBS	6,396	-	6,396	-	-	-
ETG	3,309	-	3,309	-	-	-
Gray TV	5,444	-	5,444	5,950	-	5,950
Consolidation of a VIE (See Notes 2 and 3)	698	-	698	1,539	-	1,539

Balance as of June 30, 2014	$ 259,871	$ (45,991)	$ 213,880	$ 345,930	$ (49,421)	$ 296,509

Indefinite-lived intangible assets are not subject to amortization, but are tested for impairment annually or whenever events or changes in circumstances indicate that such assets might be impaired. As of June 30, 2014, the Company did not identify any events that would trigger impairment assessment.

5. Accrued Expenses

Accrued expenses consisted of the following (in thousands):

	June 30, 2014	December 31, 2013
Compensation and related taxes	$16,300	$9,744
Sales commissions	2,429	2,556
Employee benefits	1,875	1,354
Property taxes	1,096	649
Other	11,939	9,839
	$33,639	$24,142

15

6. Debt

Long-term debt consisted of the following (in thousands):

		June 30, 2014		December 31, 2013
Term loans, net of discount of $1,491 and $1,554, respectively	$	562,750	$	545,450
6.875% Senior unsecured notes due 2020, including premium of $630 and $669, respectively		525,630		525,669
		1,088,380		1,071,119
Less: current portion		(6,575)		(6,857)
	$	1,081,805	$	1,064,262

2014 Transactions

Through June 2014, Nexstar and Mission paid the contractual maturities under their senior secured credit facilities of $1.0 million and $0.9 million, respectively.

On March 10, 2014, pursuant to the mandatory prepayment provisions under their credit agreements, Nexstar and Mission prepaid $1.1 million and $1.0 million, respectively, of the outstanding principal balances under their Term Loan B-2 facilities. In addition, Nexstar prepaid $0.5 million of the outstanding principal balance under its Term Loan A. The mandatory prepayments were calculated per the credit agreements, based on the consolidated first lien indebtedness ratio, as defined in the credit agreements, less amounts declined by lenders.

Effective April 30, 2014, Nexstar and Mission amended each of their credit agreements. The amendments increased Nexstar's total commitments under its Term Loan A Facility from $144.0 million to $159.0 million and reduced Mission's total commitments under its Term Loan A Facility from $90.0 million to $60.0 million. Pursuant to the terms of the amended credit agreements, Nexstar may also reallocate its unused Term Loan A Facility to Mission and Mission may reallocate its unused Term Loan A Facility to Nexstar. Additionally, the amendments increased the commitment fees on unused Term Loan A Facilities from 0.5% to 1.0% and extended the quarterly principal payments commencement to December 31, 2014. On May 5, 2014, Nexstar prepaid $3.2 million of the outstanding principal balance under its Term Loan A pursuant to the terms of its amended credit agreement.

On June 12, 2014, Nexstar borrowed $25.0 million, issued at 99.75%, under its Term Loan A Facility to partially fund the acquisition of certain television stations from Gray TV (See Note 3).

Unused Commitments and Borrowing Availability

Nexstar and Mission had $105.0 million of total unused revolving loan commitments and $147.2 million of unused Term Loan A Facilities under their amended senior secured credit facilities, all of which was available for borrowing, based on the covenant calculations as of June 30, 2014. Nexstar and Mission's ability to access funds under their senior secured credit facilities depends, in part, on their compliance with certain financial covenants.

Debt Covenants

The Nexstar senior secured credit facility agreement contains covenants which require Nexstar to comply with certain financial covenant ratios, including (1) a maximum consolidated total net leverage ratio of Nexstar Broadcasting, Inc. ("Nexstar Broadcasting"), a wholly-owned, indirect subsidiary of Nexstar, and Mission of 7.25 to 1.00 at June 30, 2014, (2) a maximum consolidated first lien net leverage ratio of 4.00 to 1.00 at any time and (3) a minimum consolidated fixed charge coverage ratio of 1.20 to 1.00 at any time. The covenants, which are formally calculated on a quarterly basis, are based on the combined results of Nexstar Broadcasting and Mission. Mission's senior secured credit agreement does not contain financial covenant ratio requirements, but includes default provisions in the event Nexstar does not comply with all covenants contained in its senior secured credit facility agreement. As of June 30, 2014, Nexstar was in compliance with all of its covenants.

Collateralization and Guarantees of Debt

Nexstar and Mission's senior secured credit facilities are collateralized by a security interest in substantially all the combined assets, excluding FCC licenses, of Nexstar and Mission. Nexstar guarantees full payment of all obligations incurred under the Mission senior secured credit facility in the event of Mission's default. Similarly, Mission is a guarantor of the Nexstar senior secured credit facility and the senior unsecured notes issued by Nexstar.

Fair Value of Debt

The aggregate carrying amounts and estimated fair values of the Company's debt were as follows (in thousands):

	June 30, 2014		December 31, 2013	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Term loans(1)	$ 562,750	$ 563,771	$ 545,450	$ 546,818
6.875% Senior unsecured notes(2)	525,630	568,313	525,669	561,750

(1) The fair value of senior secured credit facilities is computed based on borrowing rates currently available to Nexstar and Mission for bank loans with similar terms and average maturities. These fair value measurements are considered Level 3, as significant inputs to the fair value calculation are unobservable in the market.
(2) The fair value of Nexstar's fixed rate debt is estimated based on bid prices obtained from an investment banking firm that regularly makes a market for these financial instruments. These fair value measurements are considered Level 2, as quoted market prices are available for low volume trading of these securities.

7. FCC Regulatory Matters

Television broadcasting is subject to the jurisdiction of the FCC under the Communications Act of 1934, as amended (the "Communications Act"). The Communications Act prohibits the operation of television broadcasting stations except under a license issued by the FCC, and empowers the FCC, among other things, to issue, revoke, and modify broadcasting licenses, determine the location of television stations, regulate the equipment used by television stations, adopt regulations to carry out the provisions of the Communications Act and impose penalties for the violation of such regulations. The FCC's ongoing rule making proceedings could have a significant future impact on the television industry and on the operation of the Company's stations and the stations to which it provides services. In addition, the U.S. Congress may act to amend the Communications Act or adopt other legislation in a manner that could impact the Company's stations, the stations to which it provides services and the television broadcast industry in general.

The FCC has adopted rules with respect to the final conversion of existing low power and television translator stations to digital operations. The FCC has established a September 1, 2015 deadline by which low power and television translator stations must cease analog operations. The Company will transition its low power and television translator stations to digital operations prior to September 1, 2015.

Media Ownership

The FCC is required to review its media ownership rules every four years and to eliminate those rules it finds no longer serve the "public interest, convenience and necessity."

In 2006, the FCC initiated a rulemaking proceeding to review all of its media ownership rules, as required by the Communications Act. The FCC considered rules relating to ownership of two or more TV stations in a market, ownership of local TV and radio stations by daily newspapers in the same market, cross-ownership of local TV and radio stations, and changes to how the national TV ownership limits are calculated. In February 2008, the FCC adopted modest changes to its newspaper/broadcast cross-ownership rule while retaining the rest of its ownership rules then currently in effect. On July 7, 2011, the U.S. Court of Appeals for the Third Circuit vacated the FCC's changes to its newspaper/broadcast cross-ownership rule while upholding the FCC's retention of its other media ownership rules. In June 2012, the Supreme Court denied various petitions for review of the Third Circuit's decision.

17

In May 2010, the FCC initiated its 2010 review of its media ownership rules with the issuance of a notice of inquiry, and in December 2011, the agency issued a notice of proposed rulemaking seeking comment on specific proposed changes to its ownership rules. The FCC, however, did not complete its 2010 review proceeding. In March 2014, the FCC initiated its 2014 quadrennial review with the adoption of a Further Notice of Proposed Rulemaking (FNPRM). The FNPRM incorporates the record of the 2010 quadrennial review proceeding and again solicits comment on proposed changes to the media ownership rules. Among the proposals in the FNPRM are (1) retention of the current local television ownership rule (but with modifications to certain service contour definitions to conform to digital television broadcasting), (2) elimination of the radio/television cross-ownership rule, (3) elimination of the newspaper/radio cross-ownership rule, and (4) retention of the newspaper/television cross-ownership rule, while considering waivers of that rule in certain circumstances. The FNPRM also proposes to define a category of sharing agreements designated as SSAs between television stations, and to require television stations to disclose those SSAs. Comments and reply comments on the FNPRM are expected to be filed in the third quarter of 2014.

Concurrently with its adoption of the FNPRM, the FCC also adopted a rule making television JSAs attributable to the seller of advertising time in certain circumstances. Under this rule, where a party owns a full-power television station in a market and sells more than 15% of the weekly advertising time for another, non-owned station in the same market under a JSA, that party will be deemed to have an attributable interest in the latter station for purposes of the local television ownership rule. Parties to newly attributable JSAs that do not comply with the local television ownership rule will have two years from June 19, 2014, the effective date of the rule, to modify or terminate their JSAs to come into compliance. Although the FCC will consider waivers of the new JSA attribution rule, the FCC thus far has provided little guidance on what factors must be present for a waiver to be granted. If we are required to amend or terminate our existing agreements we could have a reduction in revenue and increased costs if we are unable to successfully implement alternative arrangements that are as beneficial as the existing JSA agreements. The Company, along with several other entities, has filed for review of the new JSA rule in the U.S. Court of Appeals for the D.C. Circuit. The D.C. Circuit currently is considering whether to hear the appeal or transfer it to the Third Circuit.

Also in March 2014, the FCC’s Media Bureau issued a public notice announcing “processing guidelines” for certain pending and future applications for FCC approval of television acquisitions. The public notice indicates that the FCC will “closely scrutinize” applications which propose a JSA, SSA or local marketing agreement (“LMA”) between television stations, combined with an option, a similar “contingent interest,” or a loan guarantee. The FCC’s processing guidelines and the new JSA attribution rule are both subjects of pending court appeals.

In September 2013, the FCC commenced a rulemaking proceeding to consider whether to eliminate the “UHF discount” that is currently used to calculate compliance with the national television ownership limit.

Spectrum

The FCC has initiated various proceedings to assess the availability of spectrum to meet future wireless broadband needs. The FCC’s March 2010 “National Broadband Plan” recommends the reallocation of 120 megahertz of the spectrum currently used for broadcast television for wireless broadband use. The FCC has thus far adopted rules permitting television stations to share a single 6 megahertz channel and requested comment on proposals that include, among other things, whether to add new frequency allocations in the television bands for licensed fixed and mobile wireless uses and whether to implement technical rule modifications to improve the viability of certain channels that are underutilized by digital television stations. In February 2012, Congress adopted legislation authorizing the FCC to conduct an incentive auction whereby television broadcasters could voluntarily relinquish all or part of their spectrum in exchange for consideration. In June 2014, the FCC released a Report and Order adopting rules to implement the broadcast television spectrum incentive auction, including rules addressing the design of the incentive auction and various technical issues related to the reallocation of television spectrum for mobile broadband use. The FCC will decide additional issues related to the incentive auction, including final auction procedures and still-outstanding technical issues, in separate proceedings over the next several months. The FCC has stated its intention to conduct the incentive auction in 2015. A reallocation of television spectrum for wireless broadband use will involve a "repacking" of the television broadcast band, which would require some television stations to change channel or otherwise modify their technical facilities. Future steps to reallocate television spectrum to broadband use may be to the detriment of the Company's investment in digital facilities, could require substantial additional investment to continue current operations, and may require viewers to invest in additional equipment or subscription services to continue receiving broadcast television signals. The Company cannot predict the timing or results of television spectrum reallocation efforts or their impact to its business.

Retransmission Consent

On March 3, 2011, the FCC initiated a Notice of Proposed Rulemaking to reexamine its rules (i) governing the requirements for good faith negotiations between multichannel video program distributors (MVPDs) and broadcasters, including implementing a prohibition on one station negotiating retransmission consent terms for another station under a local service agreement; (ii) for providing advance notice to consumers in the event of dispute; and (iii) to extend certain cable-only obligations to all MVPDs. The FCC also asked for comment on eliminating the network non-duplication and syndicated exclusivity protection rules, which may permit MVPDs to import out-of-market television stations during a retransmission consent dispute.

In March 2014, the FCC adopted a rule that prohibits joint retransmission consent negotiation between television stations in the same market which are not commonly owned and which are ranked among the top four stations in the market in terms of audience share. An appeal has been filed for review of this new rule in the U.S. Court of Appeals for the D.C. Circuit.

Concurrently with its adoption of this rule, the FCC also adopted a further notice of proposed rulemaking which seeks comment on the elimination or modification of the network non-duplication and syndicated exclusivity rules. The FCC's prohibition on joint negotiations and its possible elimination or modification of the network non-duplication and syndicated exclusivity protection rules may affect the Company's ability to sustain its current level of retransmission consent revenues or grow such revenues in the future and could have an adverse effect on the Company's business, financial condition and results of operations. The Company cannot predict the resolution of the FCC's network non-duplication and syndicated exclusivity proposals, or the impact of these proposals or the FCC's new prohibition on joint negotiations, on its business.

8. Commitments and Contingencies

Guarantee of Mission Debt

Nexstar guarantees full payment of all obligations incurred under Mission's senior secured credit facility. In the event that Mission is unable to repay amounts due, Nexstar will be obligated to repay such amounts. The maximum potential amount of future payments that Nexstar would be required to make under this guarantee would be generally limited to the amount of borrowings outstanding. As of June 30, 2014, Mission had a maximum commitment of $321.0 million under its senior secured credit facility, of which $231.0 million of debt was outstanding.

Indemnification Obligations

In connection with certain agreements into which the Company enters in the normal course of its business, including local service agreements, business acquisitions and borrowing arrangements, the Company enters into contractual arrangements under which the Company agrees to indemnify the other party to such arrangement from losses, claims and damages incurred by the indemnified party for certain events as defined within the particular contract. Such indemnification obligations may not be subject to maximum loss clauses and the maximum potential amount of future payments the Company could be required to make under these indemnification arrangements may be unlimited. Historically, payments made related to these indemnifications have been immaterial and the Company has not incurred significant costs to defend lawsuits or settle claims related to these indemnification agreements.

Litigation

From time to time, the Company is involved with claims that arise out of the normal course of its business. In the opinion of management, any resulting liability with respect to these claims would not have a material adverse effect on the Company's financial position, results of operations or cash flows.

9. Condensed Consolidating Financial Information

The following condensed consolidating financial information presents the financial position, results of operations and cash flows of Nexstar and its consolidated VIEs. This information is presented in lieu of separate financial statements and other related disclosures pursuant to Regulation S-X Rule 3-10 of the Securities Exchange Act of 1934, as amended, “Financial Statements of Guarantors and Issuers of Guaranteed Securities Registered or Being Registered.”

The Nexstar column presents the parent company’s financial information (not including any subsidiaries). Nexstar owns 100% of Nexstar Finance Holdings, Inc. (“Nexstar Holdings”), which owns 100% of Nexstar Broadcasting. The Nexstar Holdings column presents its financial information (not including any subsidiaries). The Nexstar Broadcasting column presents its financial information. The Mission column presents the financial information of Mission, an entity which Nexstar Broadcasting is required to consolidate as a VIE (see Note 2). Neither Mission nor Nexstar Broadcasting has any subsidiaries.

Nexstar’s outstanding 6.875% senior unsecured notes (See Note 6) are fully and unconditionally guaranteed, jointly and severally, by Nexstar and Mission, subject to certain customary release provisions. These notes are not guaranteed by any other entities.

The condensed consolidating statement of cash flows for the six months ended June 30, 2013 has been revised to reflect the correction of certain classification errors discussed in Note 2.

CONDENSED CONSOLIDATING BALANCE SHEET
As of June 30, 2014
(in thousands)

	Nexstar	Nexstar Broadcasting	Mission	Nexstar Holdings	Eliminations	Consolidated Company
ASSETS						
Current assets:						
Cash and cash equivalents	$-	$ 29,391	$2,722	$-	$ -	$ 32,113
Due from Nexstar Broadcasting	-	-	5,436	-	(5,436)	-
Other current assets	-	141,975	15,552	-	-	157,527
Total current assets	-	171,366	23,710	-	(5,436)	189,640
Investments in subsidiaries eliminated upon consolidation	72,616	-	-	87,858	(160,474)	-
Amounts due from subsidiary eliminated upon consolidation	652	-	-	-	(652)	-
Amounts due from parents eliminated upon consolidation	-	14,588	-	-	(14,588)	-
Property and equipment, net	-	193,736	25,419	-	-	219,155
Goodwill	-	181,391	32,489	-	-	213,880
FCC licenses	-	254,946	41,563	-	-	296,509
Other intangible assets, net	-	155,526	22,555	-	-	178,081
Other noncurrent assets	-	62,272	29,515	-	-	91,787
Total assets	$73,268	$ 1,033,825	$175,251	$87,858	$ (181,150)	$ 1,189,052
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)						
Current liabilities:						
Current portion of debt	$-	$ 4,738	$1,837	$-	$ -	$ 6,575
Due to Mission	-	5,436	-	-	(5,436)	-