NEXSTAR BROADCASTING GROUP INC
Form 10-Q
August 12, 2008
Table of Contents

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, 2008

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 Organization or Incorporation)	**(IRS Employer Identification No.)**

5215 N. O Connor Blvd., Suite 1400

Irving, Texas 75039	**(972) 373-8800**
(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 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 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 ¨	Accelerated filer x
Non-accelerated filer ¨	Smaller reporting company ¨
(Do not check if a 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 July 31, 2008 the Registrant had outstanding:

15,013,839 shares of Class A Common Stock

and 13,411,588 shares of Class B Common Stock

Table of Contents

TABLE OF CONTENTS

Table of Contents

PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements

NEXSTAR BROADCASTING GROUP, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except share information)

	June 30, 2008 (Unaudited)	December 31, 2007 (Note 2)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 15,631	$ 16,226
Accounts receivable, net of allowance for doubtful accounts of $916 and $1,208, respectively	56,075	55,346
Current portion of broadcast rights	6,060	13,885
Taxes receivable		351
Prepaid expenses and other current assets	1,620	2,482
Deferred tax asset	15	15
Total current assets	79,401	88,305
Property and equipment, net	121,356	111,612
Broadcast rights	6,584	7,674
Goodwill	152,272	151,686
FCC licenses	166,455	163,795
Other intangible assets, net	167,403	178,611
Other noncurrent assets	5,525	6,399
Deferred tax asset	613	620
Total assets	$ 699,609	$ 708,702
LIABILITIES AND STOCKHOLDERS DEFICIT		
Current liabilities:		
Current portion of debt	$ 3,485	$ 50,391
Current portion of broadcast rights payable	6,336	13,943
Accounts payable	13,421	8,334
Accrued expenses	10,122	13,563
Taxes payable	237	478
Interest payable	10,234	6,499
Deferred revenue	6,555	6,569
Other liabilities	1,333	
Total current liabilities	51,723	99,777
Debt	667,680	630,785
Broadcast rights payable	8,179	9,569
Deferred tax liabilities	47,576	44,555
Deferred revenue	1,949	2,096

Deferred gain on sale of assets	5,149	5,368
Deferred representation fee incentive	6,276	
Other liabilities	10,589	5,942
Total liabilities	799,121	798,092
Commitments and contingencies		
Stockholders deficit:		
Preferred stock - $0.01 par value, authorized 200,000 shares; no shares issued and outstanding at both June 30, 2008 and December 31, 2007		
Common stock:		
Class A Common - $0.01 par value, authorized 100,000,000 shares; issued and outstanding 15,013,839 and 15,005,839 at June 30, 2008 and December 31, 2007, respectively	150	150
Class B Common - $0.01 par value, authorized 20,000,000 shares; issued and outstanding 13,411,588 at both June 30, 2008 and December 31, 2007	134	134
Class C Common - $0.01 par value, authorized 5,000,000 shares; issued and outstanding no shares at June 30, 2008 and December 31, 2007, respectively		
Additional paid-in capital	397,622	396,293
Accumulated deficit	(497,418)	(485,967)
Total stockholders deficit	(99,512)	(89,390)
Total liabilities and stockholders deficit	$ 699,609	$ 708,702

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

1

Table of Contents

NEXSTAR BROADCASTING GROUP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
	(Unaudited)		(Unaudited)	
Net revenue	$ 70,618	$ 68,729	$ 134,330	$ 130,783
Operating expenses:				
Direct operating expenses (exclusive of depreciation and amortization shown separately below)	19,283	18,551	38,779	36,707
Selling, general, and administrative expenses (exclusive of depreciation and amortization shown separately below)	21,839	21,787	42,724	42,085
Non-cash contract termination fees			7,167	
Amortization of broadcast rights	4,806	4,756	10,141	10,648
Amortization of intangible assets	6,383	6,467	12,755	12,932
Depreciation	5,088	5,024	10,421	10,012
Gain on asset exchange	(2,742)	(1,035)	(3,592)	(1,035)
Gain on asset disposal, net	(205)	(242)	(170)	(90)
Total operating expenses	54,452	55,308	118,225	111,259
Income from operations	16,166	13,421	16,105	19,524
Interest expense, including amortization of debt financing costs	(10,806)	(13,771)	(24,795)	(27,491)
Interest and other income	151	145	552	261
Income (loss) before income taxes	5,511	(205)	(8,138)	(7,706)
Income tax expense	(1,634)	(1,086)	(3,313)	(2,618)
Net income (loss)	$ 3,877	$ (1,291)	$ (11,451)	$ (10,324)
Net income (loss) per common share:				
Basic and diluted	$ 0.14	$ (0.05)	$ (0.40)	$ (0.36)
Weighted average number of common shares outstanding:				
Basic and diluted	28,422	28,402	28,420	28,397

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

Table of Contents

NEXSTAR BROADCASTING GROUP, INC.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS DEFICIT

For the Six Months Ended June 30, 2008

(in thousands, except share information)

	Common Stock Class A		Class B		Class C		Additional		Total
	Shares	Amount	Shares	Amount	Shares	Amount	Paid-In Capital	Accumulated Deficit	Stockholders Deficit
Balance at January 1, 2008 (Note 2)	15,005,839	$ 150	13,411,588	$ 134		$	$ 396,293	$ (485,967)	$ (89,390)
Stock-based compensation expense							1,291		1,291
Issuance of common shares related to exercise of stock options	8,000						38		38
Net loss								(11,451)	(11,451)
Balance at June 30, 2008 (unaudited)	15,013,839	$ 150	13,411,588	$ 134		$	$ 397,622	$ (497,418)	$ (99,512)

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

3

Table of Contents

NEXSTAR BROADCASTING GROUP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	Six Months Ended June 30, 2008	Six Months Ended June 30, 2007
	(Unaudited)	
Cash flows from operating activities:		
Net loss	$ (11,451)	$ (10,324)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Deferred income taxes	3,043	2,338
Provision for bad debts	107	406
Depreciation of property and equipment	10,421	10,012
Amortization of intangible assets	12,755	12,932
Amortization of debt financing costs	530	523
Amortization of broadcast rights, excluding barter	4,303	4,228
Amortization of deferred representation fee incentive	(179)	
Payments for broadcast rights	(4,127)	(4,261)
Gain on asset exchange	(3,592)	(1,035)
Gain on asset disposal, net	(170)	(90)
Deferred gain recognition	(219)	(218)
Amortization of debt discount	3,638	6,577
Stock-based compensation expense	1,291	954
Non-cash contract termination fee	7,167	
Changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable	245	(5,239)
Prepaid expenses and other current assets	875	1,172
Taxes receivable	336	229
Other noncurrent assets	(444)	(519)
Accounts payable and accrued expenses	679	(4,416)
Taxes payable	(241)	
Interest payable	3,735	(80)
Deferred revenue	(161)	4
Other noncurrent liabilities	300	315
Net cash provided by operating activities	28,841	13,508
Cash flows from investing activities:		
Additions to property and equipment	(7,902)	(10,104)
Acquisition of broadcast properties and related transaction costs	(7,923)	
Proceeds from sale of assets		318
Down payment on acquisition of station		(387)
Net cash used for investing activities	(15,825)	(10,173)
Cash flows from financing activities:		
Repayment of long-term debt	(98,649)	(5,743)
Proceeds from long-term debt	50,000	
Proceeds from senior subordinated PIK notes	35,000	

Proceeds from issuance of common shares related to exercise of stock options	38	56
Net cash used for financing activities	(13,611)	(5,687)
Net decrease in cash and cash equivalents	(595)	(2,352)
Cash and cash equivalents at beginning of period	16,226	11,179
Cash and cash equivalents at end of period	$ 15,631	$ 8,827
Supplemental schedule of cash flow information:		
Cash paid during the period for:		
Interest	$ 16,732	$ 20,473
Income taxes, net	$ 178	$ 51
Non-cash investing activities:		
Purchase of software	$ 4,968	$

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

4

NEXSTAR BROADCASTING GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Organization and Business Operations

As of June 30, 2008, Nexstar Broadcasting Group, Inc. (Nexstar) owned, operated, programmed or provided sales and other services to 50 television stations, all of which were affiliated with the NBC, ABC, CBS, Fox, MyNetworkTV or The CW television networks, in markets located in New York, Pennsylvania, Illinois, Indiana, Missouri, Texas, Louisiana, Arkansas, Alabama, Montana and Maryland. Through various local service agreements, Nexstar provided sales, programming and other services to stations 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.

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.

2. Summary of Significant Accounting Policies

Interim Financial Statements

The condensed consolidated financial statements as of June 30, 2008 and for the three months and six months ended June 30, 2008 and 2007 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 (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 fiscal year ended December 31, 2007. The balance sheet at December 31, 2007 has been derived from the audited financial statements at that date, but does not include all of the information and footnotes required by U.S. GAAP for complete financial statements.

Principles of Consolidation

The condensed consolidated financial statements include the accounts of Nexstar and its subsidiaries. Also included in the financial statements are the accounts of independently-owned Mission Broadcasting, Inc. (Mission) (Nexstar and Mission are collectively referred to as the Company) and may include certain other entities where it is determined that the Company is the primary beneficiary of a variable interest entity (VIE) in accordance with Financial Accounting Standards Board (FASB) Interpretation No. 46 (revised 2003), Consolidation of Variable Interest Entities, an interpretation on Accounting Research Bulletin No. 51 (FIN No. 46R).

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

Mission

Mission is included in these condensed consolidated financial statements because Nexstar is deemed to have a controlling financial interest in Mission for financial reporting purposes in accordance with FIN No. 46R as a result of (a) local service agreements Nexstar has with the Mission stations, (b) Nexstar s guarantee of the obligations incurred under Mission s senior credit facility and (c) purchase options (which expire on various dates between 2008 and 2014) granted by Mission s sole shareholder which will permit Nexstar to acquire the assets and assume the liabilities of each Mission station, subject to Federal Communications Commission (FCC) consent. The Company expects these option agreements to be renewed upon expiration. As of June 30, 2008, the assets of Mission consisted of current assets of $7.1 million (excluding broadcast rights), broadcast rights of $2.9 million, FCC licenses of $31.4 million, goodwill of $17.7 million, other intangible assets of $34.8 million, property and equipment of $24.6 million and other noncurrent assets of $0.5 million. Substantially all of Mission s assets, except for its FCC licenses, collateralize its secured debt obligation. See Note 17 for a presentation of condensed consolidating financial information of the Company, which includes the accounts of Mission.

NEXSTAR BROADCASTING GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies (Continued)

Nexstar has entered into local service agreements with Mission to provide sales and/or 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, 2008:

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

(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. The 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. The JSA permits Nexstar to sell 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 does not own Mission or Mission s television stations; however, Nexstar is deemed to have a controlling financial interest in them under U.S. GAAP while complying with the FCC s rules regarding ownership limits in television markets. In order for both Nexstar and Mission to comply with FCC regulations, Mission maintains complete responsibility for and control over programming, finances, personnel and operations of its stations.

Variable Interest Entities

The Company may determine that a station is a VIE as a result of local service agreements entered into with the owner-operator of stations in markets in which the Company owns and operates a station. Local service agreement is a general term used to refer to a contract between two 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.

VIEs in connection with local service agreements entered into with stations in markets in which the Company owns and operates a station are discussed below.

Nexstar has determined that it has variable interests in WYZZ, the Fox affiliate in Peoria, Illinois and WUHF, the Fox affiliate in Rochester, New York, each owned by a subsidiary of Sinclair Broadcasting Group, Inc. (Sinclair), as a result of outsourcing agreements it has entered into with Sinclair. Nexstar also has determined that it has a variable interest in WHP, the CBS affiliate in Harrisburg, Pennsylvania, which is owned by Newport Television License, LLC (Newport Television) , as a result of Nexstar becoming successor-in-interest to a TBA entered into by a former owner of WLYH. Nexstar has evaluated its arrangements with Sinclair, Piedmont and Newport Television and has determined that it is not the primary beneficiary of the variable interests, and therefore, has not consolidated these stations under FIN No. 46R. Nexstar made payments to Sinclair under the outsourcing agreements of $1.0 million and $0.9 million for the three months ended June 30, 2008 and 2007, respectively and $1.6 million for each of the six months then ended. Nexstar received payments from Piedmont under the JSA of $0.3 and $0.6 million for the three months and six months ended June 30, 2007. Nexstar received payments from Clear Channel under the TBA of $13 thousand for both of the three months ended June 30, 2008 and 2007 and $25 thousand for both of the six months then ended.

Under the outsourcing agreements with Sinclair, Nexstar pays for certain operating expenses of WYZZ and WUHF, and therefore may have unlimited exposure to any potential operating losses. Nexstar s management believes that Nexstar s minimum exposure to loss under the Sinclair outsourcing agreements consist of the fees paid to Sinclair. Additionally, Nexstar indemnifies the owners of WHP, WYZZ and WUHF from and against all liability and claims arising out of or resulting from its activities, acts or omissions in connection with the agreements. The maximum potential amount of future payments Nexstar could be required to make for such indemnification is undeterminable at this time.

Table of Contents

NEXSTAR BROADCASTING GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies (Continued)

Stock-Based Compensation

The Company accounts for Nexstar s stock-based employee compensation plans in accordance with Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payment (SFAS No. 123(R)), which requires companies to expense the fair value of employee stock options and other forms of stock-based employee compensation in the financial statements over the period that an employee provides service in exchange for the award. Under SFAS No. 123(R), the Company measures compensation cost related to stock options based on the grant-date fair value of the award using the Black-Scholes option-pricing model and recognizes it ratably, less estimated forfeitures, over the vesting term of the award.

The Company recognized stock-based compensation expense of $0.6 million and $0.5 million for the three months ended June 30, 2008 and 2007, respectively and $1.3 million and $1.0 million for the six months then ended, which was included in selling, general and administrative expenses in the Company s condensed consolidated statements of operations. The Company does not currently recognize a tax benefit resulting from compensation costs expensed in the financial statements because the Company provides a valuation allowance against the deferred tax asset resulting from this type of temporary difference since it expects that it will not have sufficient future taxable income to realize such benefit. Accordingly, SFAS No. 123(R) has had no impact on income tax expense reported in the financial statements.

At June 30, 2008, there was approximately $7.4 million of total unrecognized compensation cost, net of estimated forfeitures, related to stock options that is expected to be recognized over a weighted-average period of 3.33 years. The total intrinsic value and cash received for stock options exercised during the six months ended June 30, 2008 was $9 thousand and $39 thousand, respectively.

Income (loss) Per Share

Basic income (loss) per share is computed by dividing the net income (loss) by the weighted-average number of common shares outstanding during the period. Diluted income (loss) per share is computed using the weighted-average number of common shares and dilutive potential common shares outstanding during the period using the treasury stock method. Potential common shares consist of stock options and the unvested portion of restricted stock granted to employees. For the three months and six months ended June 30, 2008 and 2007 there was no difference between basic and diluted net income (loss) per share since the effect of potential common shares were anti-dilutive, and therefore excluded from the computation of diluted net income (loss) per share.

The following table summarizes information about anti-dilutive potential common shares (not presented in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
	(weighted-average shares outstanding)		(weighted-average shares outstanding)	
Stock options excluded as the exercise price of the options was greater than the average market price of the common stock	2,355,611	1,009,747	2,381,639	1,080,182
In-the-money stock options excluded due to anti-dilutive effects	1,743,078	2,563,692	1,810,861	2,516,558

Nonmonetary Asset Exchanges

In connection with a spectrum allocation exchange ordered by the FCC within the 1.9 GHz band, Sprint Nextel Corporation (Nextel) is required to replace certain existing analog equipment with comparable digital equipment. The Company has agreed to accept the substitute equipment that Nextel will provide and in turn must relinquish its existing equipment to Nextel. Neither party will have any continuing involvement in the equipment transferred following the exchange. We account for this arrangement as an exchange of assets in accordance with Accounting Principles Board No. 29, Accounting for Nonmonetary Transactions , as amended by SFAS No. 153, Exchanges of Nonmonetary Assets . The equipment the Company receives under this arrangement is recorded at their estimated fair market value and depreciated over estimated useful lives ranging from 5 to 15 years. Management s determination of the fair market value is derived from the most recent prices paid to manufacturers and vendors for the specific equipment acquired. As equipment is exchanged, the Company records a gain to the extent that the fair market value of the equipment received exceeds the carrying amount of the equipment relinquished.

NEXSTAR BROADCASTING GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies (Continued)

Recent Accounting Pronouncements

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB No. 115 (SFAS No. 159), which provides a fair value measurement option for eligible financial assets and liabilities. Under SFAS No. 159, an entity is permitted to elect to apply fair value accounting to a single eligible item, subject to certain exceptions, without electing it for other identical items. Subsequent unrealized gains and losses on items for which the fair value option has been elected will be included in earnings. The fair value option established by this Statement is irrevocable, unless a new election date occurs. This standard reduces the complexity in accounting for financial instruments and mitigates volatility in earnings caused by measuring related assets and liabilities differently. SFAS No. 159 is effective as of the beginning of an entity s first fiscal year beginning after November 15, 2007 which for the Company is January 1, 2008. The Company has adopted the provisions of this Statement in the first quarter of 2008. Management determined that the adoption of SFAS No. 159 had no effect on its consolidated financial position or results of operations.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141R, Business Combinations (SFAS No. 141R), which establishes principles and requirements for how the acquirer of a business recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree. SFAS 141R also provides guidance for recognizing and measuring the goodwill acquired in the business combination and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS 141R is effective for fiscal years beginning after December 15, 2008. Early adoption is not permitted. Management is currently evaluating the impact the adoption of SFAS No. 141R will have on the Company s consolidated financial statements, but does not presently anticipate it will have a material impact on its consolidated financial position or results of operations.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 160, "Noncontrolling Interests in Consolidated Financial Statements - an amendment of ARB No. 51" ("SFAS No. 160"), which establishes accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. It clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. SFAS No. 160 is effective for fiscal years beginning after December 15, 2008. Management is currently evaluating the impact the adoption of SFAS No. 160 will have on the Company's consolidated financial statements, but does not presently anticipate it will have a material effect on its consolidated financial position or results of operations.

In April 2008, the FASB issued FASB Staff Position (FSP) No. FAS 142-3, Determination of the Useful Life of Intangible Assets, which amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under FASB Statement No. 142, Goodwill and Other Intangible Assets. This Position is effective for fiscal years beginning after December 15, 2008 and only applies prospectively to intangible assets acquired after the effective date. Early adoption is not permitted. Management is currently evaluating the impact that this statement will have on our consolidated financial position or results of operations.

3. Fair Value Measurements

The Company adopted SFAS No. 157 effective January 1, 2008 for financial assets and financial liabilities measured on a recurring basis. SFAS No. 157 applies to all financial assets and financial liabilities that are being measured and reported on a fair value basis. There was no impact for adoption of SFAS No. 157 to the Unaudited Condensed Consolidated Financial Statements as it relates to financial assets and financial liabilities. SFAS No. 157 requires disclosure that establishes a framework for measuring fair value and expands disclosure about fair value measurements. The statement requires fair value measurement be classified and disclosed in one of the following three categories:

Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2: Quoted prices in markets that are not active, or inputs which are observable, either directly or indirectly, for substantially the full term of the asset or liability;

Level 3: Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported by little or no market activity).

The Company invests in short-term interest bearing obligations with original maturities less than 90 days, primarily money market funds. We do not enter into investments for trading or speculative purposes. As of June 30, 2008, there were no investments in marketable securities.

NEXSTAR BROADCASTING GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Fair Value Measurements (Continued)

As of June 30, 2008, the Company had $1.8 million invested in a money market investment. These investments are required to be measured at fair value on a recurring basis. The Company has determined that the money market investment is defined as Level 1 in the fair value hierarchy. As of June 30, 2008, the fair value of the money market investment was an asset of $1.8 million.

In February 2008, the FASB issued FSP No. FAS 157-2, Effective Date of FASB Statement No. 157, which defers the effective date for us to January 1, 2009 for all nonfinancial assets and liabilities, except those that are recognized or disclosed at fair value on a recurring basis (that is, at least annually). Management is currently evaluating the impact the adoption of this FSP will have on the Company's consolidated financial statements, but does not presently anticipate it will have a material effect on its consolidated financial position or results of operations.

4. Pending Transaction with Mission

On April 11, 2006, Nexstar and Mission filed an application with the FCC for consent to assignment of the license of KFTA Channel 24 (Ft. Smith, Arkansas) from Nexstar to Mission. Consideration for this transaction is set at $5.6 million. On August 28, 2006, Nexstar and Mission entered into a local service agreement whereby (a) Mission pays Nexstar $5 thousand per month for the right to broadcast Fox programming on KFTA during the Fox network programming time periods and (b) Nexstar pays Mission $20 thousand per month for the right to sell all advertising time on KFTA within the Fox network programming time periods. Also in 2006, Mission entered into an affiliation agreement with the Fox network which provides Fox programming to KFTA. The local service agreement between Nexstar and Mission will terminate upon assignment of KFTA s FCC license from Nexstar to Mission. Upon completing the assignment of KFTA s license, Mission plans to enter into a JSA and SSA with Nexstar-owned KNWA in Fort Smith-Fayetteville-Springdale-Rogers, Arkansas, whereby KNWA will provide local news, sales and other non-programming services to KFTA. Nexstar s KNWA Channel 51, licensed to Rogers, Arkansas, has renewed its affiliation agreement for KNWA to continue as the NBC affiliate in Ft. Smith-Fayetteville-Springdale-Rogers, Arkansas through 2014.

On March 11, 2008, the FCC granted the application to assign the license for KFTA from Nexstar to Mission.

5. Acquisition

On June 27, 2007, Mission entered into a purchase agreement with Piedmont Television Holdings LLC to acquire substantially all the assets of KTVE, the NBC affiliate serving the Monroe, Louisiana/El Dorado, Arkansas market. On January 16, 2008, Mission completed the acquisition of KTVE for total additional consideration of $7.9 million, inclusive of transaction costs of $0.5 million which is included in goodwill. Pursuant to the terms of the agreement, Mission made a down payment of $0.4 million against the purchase price in June 2007 and paid the remaining $7.4 million, exclusive of transaction costs, on January 16, 2008 from available cash on hand. Upon closing the purchase of KTVE, Mission entered into a JSA and SSA with Nexstar-owned KARD, the Fox affiliate in the market, whereby KARD provides local news, sales and other non-programming services to KTVE.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition. The allocation of the KTVE purchase consideration to the assets and liabilities acquired, including goodwill, has not been concluded due to the pending completion of tangible and intangible assets appraisals.

Accounts receivable	$ 1,081
Current portion of broadcast rights	408
Prepaid expenses and other current assets	12
Property and equipment	3,534
Intangible assets	3,808
Goodwill	586
Total assets acquired	9,429
Less: current portion of broadcast rights payable	152

Less: accounts payable	113
Less: accrued expenses and other liabilities	854
Net assets acquired	$ 8,310

Of the $3.8 million of acquired intangible assets, $2.7 million was assigned to FCC licenses that are not subject to amortization and $1.1 million was assigned to network affiliation agreements (estimated useful life of 15 years). Goodwill of $0.6 million is expected to be deductible for tax purposes.

Table of Contents

NEXSTAR BROADCASTING GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. Acquisition (Continued)

Unaudited Pro Forma Information

The following unaudited pro forma information has been presented as if the acquisition of KTVE had occurred on January 1, 2007 and 2008:

	Three Months Ended June 30, 2008 (actual)	Three Months Ended June 30, 2007	Six Months Ended June 30, 2008	Six Months Ended June 30, 2007
	(in thousands, except per share amounts)		(in thousands, except per share amounts)	
Net revenue	$ 70,618	$ 70,365	$ 134,579	$ 133,988
Income from operations	16,166	13,839	23,277	20,024
Income (loss) before income taxes	5,511	311	(8,151)	(7,222)
Net income (loss)	3,877	(748)	(11,469)	(9,841)
Basic and diluted net income (loss) per share	$ 0.14	$ (0.03)	$ (0.40)	$ (0.35)

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 the Company owned the acquired station during the specified period.

6. Property and Equipment

As of June 30, 2008, included in net property and equipment is approximately $4.8 million of costs related to the purchase of software. The asset is being amortized over the term of the contract. As of June 30, 2008, $0.6 million representing the current portion of the remaining liability associated with this contract is included in other current liabilities and $4.2 million representing the long-term portion of the remaining liability associated with this contract is included in other non-current liabilities in the accompanying condensed balance sheet.

7. Intangible Assets and Goodwill

Intangible assets subject to amortization consisted of the following:

	Estimated useful life (years)	June 30, 2008			December 31, 2007		
		Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
			(in thousands)			(in thousands)	
Network affiliation agreements	15	$ 357,027	$ (194,801)	$ 162,226	$ 355,878	$ (182,848)	$ 173,030
Other definite-lived intangible assets	1-15	16,136	(10,959)	5,177	15,775	(10,194)	5,581
Total intangible assets subject to amortization		$ 373,163	$ (205,760)	$ 167,403	$ 371,653	$ (193,042)	$ 178,611

Total amortization expense from definite-lived intangibles was $6.4 million and $6.5 million for the three months ended June 30, 2008 and 2007, respectively and $12.8 million and $12.9 million for the six months then ended. The Company s estimate of amortization expense for definite-lived intangible assets is approximately $25.0 million for each year for the years of 2008 through 2012.

The aggregate carrying value of indefinite-lived intangible assets, consisting of FCC licenses and goodwill, was $318.7 million and $315.5 million at June 30, 2008 and December 31, 2007, respectively. 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, 2008, the Company did not identify any events that would trigger an impairment assessment.

The change in the carrying amount of goodwill for the six months ended June 30, 2008 was as follows:

	June 30, 2008 (in thousands)
Beginning balance	$ 151,686
Acquisition	586
Ending balance	$ 152,272

During 2008, the consummation of Mission s acquisition of KTVE increased goodwill by $0.6 million.

10

NEXSTAR BROADCASTING GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

8. Accrued Expenses

Accrued expenses consisted of the following:

	June 30, 2008	December 31, 2007
	(in thousands)	
Compensation and related taxes	$ 2,574	$ 4,082
Sales commissions	1,449	1,514
Employee benefits	1,009	1,361
Property taxes	952	620
Other accruals related to operating expenses	4,138	5,986
	$ 10,122	$ 13,563

9. Debt

Long-term debt consisted of the following:

	June 30, 2008	December 31, 2007
	(in thousands)	
Term loans	$ 326,916	$ 328,659
7% senior subordinated notes due 2014, net of discount of $1,845 and $1,978	198,155	198,022
11.375% senior discount notes due 2013, net of discount of $3,505 at December 31, 2007	83,094	126,495
Senior subordinated PIK notes due 2014, net of discount of $623	35,000	
Revolving credit facilities	28,000	28,000
	671,165	681,176
Less: current portion	(3,485)	(50,391)
	$ 667,680	$ 630,785

The Nexstar Senior Secured Credit Facility

The Nexstar senior secured credit facility (the Nexstar Facility) consists of a Term Loan B and a $82.5 million revolving loan. As of June 30, 2008 and December 31, 2007, Nexstar had $158.9 million and $159.8 million, respectively, outstanding under its Term Loan B and $21.0 million outstanding under its revolving loan at each of these two respective dates.

The Term Loan B, which matures in October 2012, is payable in consecutive quarterly installments amortized at 0.25% quarterly, with the remaining 93.25% due at maturity. During the six months ended June 30, 2008, repayments of Nexstar s Term Loan B totaled $0.9 million, all of which were scheduled maturities. The revolving loan is not subject to incremental reduction and matures in April 2012. During the six months ended June 30, 2008, borrowings and subsequent repayments of Nexstar s revolving loan totaled $50.0 million.

The total weighted-average interest rate of the Nexstar Facility was 4.62% and 6.52% at June 30, 2008 and December 31, 2007, respectively. Interest is payable periodically based on the type of interest rate selected. Additionally, Nexstar is required to pay quarterly commitment fees on the unused portion of its revolving loan commitment ranging from 0.375% to 0.50% per annum, based on the consolidated senior leverage ratio of Nexstar Broadcasting, Inc. (Nexstar Broadcasting), an indirect subsidiary of Nexstar, and Mission for that particular quarter.

The Mission Senior Secured Credit Facility

The Mission senior secured credit facility (the Mission Facility) consists of a Term Loan B and a $15.0 million revolving loan. As of June 30, 2008 and December 31, 2007, Mission had $168.0 million and $168.8 million, respectively, outstanding under its Term Loan B and $7.0 million of borrowings were outstanding under its revolving loan at each of these two respective dates.

Terms of the Mission Facility, including repayment, maturity and interest rates, are the same as the terms of the Nexstar Facility described above. During the six months ended June 30, 2008, repayments of Mission s Term Loan B totaled $0.9 million, all of which were scheduled maturities. The total weighted average interest rate of the Mission Facility was 4.54% and 6.61% at June 30, 2008 and December 31, 2007, respectively.

Table of Contents

NEXSTAR BROADCASTING GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

9. Debt (Continued)

Senior Discount Notes

On March 27, 2003, Nexstar Finance Holdings, Inc. (Nexstar Finance Holdings), a wholly-owned subsidiary of Nexstar, issued $130.0 million principal amount at maturity of 11.375% senior discount notes (the 11.375% Notes) at a price of 57.442%. On April 1, 2008 Nexstar redeemed a principal amount of notes outstanding of $46.9 million sufficient to ensure that the 11.375% Notes will not be Applicable High Yield Discount Obligations within the meaning of Section 163(i)(1) of the Internal Revenue Code of 1986.

Senior Subordinated PIK Notes

On June 27, 2008 Nexstar Broadcasting, Inc. issued senior subordinated payment-in-kind notes due 2014 (the PIK Notes) in aggregate principal amount of $35.6 million at a purchase price equal to 98.25% or $35.0 million. The transaction closed on June 30, 2008.

The PIK Notes bear interest at the rate of: (a) 12% per annum from June 30, 2008 to January 15, 2010, payable entirely during such period by increasing the principal amount of the Notes by an amount equal to the amount of interest then due (Payment-in-Kind Interest); (b) 13% per annum, payable entirely in cash, from January 16, 2010 to July 15, 2010; (c) 13.5% per annum,