NEXSTAR BROADCASTING GROUP INC
Form 10-Q
November 09, 2016
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2016

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 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 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
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

As of November 7, 2016, the registrant had 30,704,854 shares of Class A Common Stock outstanding.

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PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements
NEXSTAR BROADCASTING GROUP, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except share information, unaudited)

	September 30, 2016	December 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	$29,256	$43,416
Accounts receivable, net of allowance for doubtful accounts of $6,128 and $5,369, respectively	214,404	192,991
Broadcast rights	15,495	16,297
Prepaid expenses and other current assets	27,866	7,324
Total current assets	287,021	260,028
Property and equipment, net	283,600	266,583
Goodwill	488,432	451,662
FCC licenses	542,524	489,335
Other intangible assets, net	336,406	314,361
Restricted cash	900,402	-
Other noncurrent assets, net	82,311	53,165
Total assets(1)	$2,920,696	$1,835,134
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of debt	$28,093	$22,139
Current portion of broadcast rights payable	16,750	17,510
Accounts payable	25,388	25,936
Accrued expenses	70,364	60,559
Interest payable	24,751	10,939
Other current liabilities	15,804	8,978
Total current liabilities	181,150	146,061
Debt	2,320,077	1,454,075
Deferred tax liabilities	111,079	101,764
Other noncurrent liabilities	40,789	46,861
Total liabilities(1)	2,653,095	1,748,761
Commitments and contingencies		
Stockholders' equity:		
Preferred stock - $0.01 par value, 200,000 shares authorized; none issued and outstanding at each of September 30, 2016 and December 31, 2015	-	-
Class A Common stock - $0.01 par value, 100,000,000 shares authorized; 31,621,369 shares issued at each of September 30, 2016 and December 31, 2015 and 30,704,854 and 30,627,804 shares	316	316

outstanding as of September 30, 2016 and December 31, 2015, respectively		
Class B Common stock - $0.01 par value, 20,000,000 shares authorized; none issued and outstanding at each of September 30, 2016 and December 31, 2015	-	-
Class C Common stock - $0.01 par value, 5,000,000 shares authorized; none issued and outstanding at each of September 30, 2016 and December 31, 2015	-	-
Additional paid-in capital	392,836	396,224
Accumulated deficit	(197,065)	(268,120)
Treasury stock - at cost; 916,515 and 993,565 shares at September 30, 2016 and December 31, 2015, respectively	(43,619)	(47,746)
Total Nexstar Broadcasting Group, Inc. stockholders' equity	152,468	80,674
Noncontrolling interests in consolidated variable interest entities	115,133	5,699
Total stockholders' equity	267,601	86,373
Total liabilities and stockholders' equity	$2,920,696	$1,835,134

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

(1) The consolidated total assets as of September 30, 2016 and December 31, 2015 include certain assets held by consolidated VIEs of $227.1 million and $119.9 million, respectively, which are not available to be used to settle the obligations of Nexstar. The consolidated total liabilities as of September 30, 2016 and December 31, 2015 include certain liabilities of consolidated VIEs of $38.0 million and $40.7 million, respectively, for which the creditors of the VIEs have no recourse to the general credit of Nexstar. See Note 2 for additional information.

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NEXSTAR BROADCASTING GROUP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share information, unaudited)

	Three Months Ended September 30, 2016	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015
Net revenue	$275,659	$223,031	$793,311	$644,115
Operating expenses:				
Direct operating expenses, excluding depreciation and amortization	100,744	78,551	283,802	219,618
Selling, general, and administrative expenses, excluding depreciation and amortization	63,602	56,426	197,539	170,272
Amortization of broadcast rights	14,034	15,312	44,060	44,566
Amortization of intangible assets	11,505	11,351	34,903	35,648
Depreciation	12,877	13,076	38,174	35,250
Total operating expenses	202,762	174,716	598,478	505,354
Income from operations	72,897	48,315	194,833	138,761
Interest expense, net	(29,622)	(20,396)	(70,853)	(60,080)
Other expenses	(126)	(115)	(409)	(383)
Income before income taxes	43,149	27,804	123,571	78,298
Income tax expense	(17,533)	(10,649)	(50,882)	(29,331)
Net income	25,616	17,155	72,689	48,967
Net (income) loss attributable to noncontrolling interests	(817)	127	(1,634)	1,543
Net income attributable to Nexstar Broadcasting Group, Inc.	$24,799	$17,282	$71,055	$50,510
Net income per common share attributable to Nexstar Broadcasting Group, Inc.:				
Basic	$0.81	$0.55	$2.32	$1.62
Diluted	$0.78	$0.54	$2.25	$1.57
Weighted average number of common shares outstanding:				
Basic	30,695	31,262	30,678	31,261
Diluted	31,698	32,151	31,619	32,263
Dividends declared per common share	$0.24	$0.19	$0.72	$0.57

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

For the Nine Months Ended September 30, 2016

(in thousands, except share information, unaudited)

	Preferred Stock		Common Stock Class A		Class B		Class C		Additional Paid-In Capital	Accumulated Deficit	Treasury Stock		Noncontrollin interests in consolidated variable interest enti	To St E
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount			Shares	Amount		
as of December 31, 2015	-	$-	31,621,369	$316	-	$-	-	$-	$396,224	$(268,120)	(993,565)	$(47,746)	$5,699	$8
sed compensation e	-	-	-	-	-	-	-	-	9,002	-	-	-	-	9
of restricted stock d exercise of ptions	-	-	-	-	-	-	-	-	(3,740)	-	77,050	4,127	-	3
ax benefit from ption exercises	-	-	-	-	-	-	-	-	13,428	-	-	-	-	1
n stock dividends declared	-	-	-	-	-	-	-	-	(22,078)	-	-	-	-	(
ation of variable entities	-	-	-	-	-	-	-	-	-	-	-	-	108,543	1
of noncontrolling s	-	-	-	-	-	-	-	-	-	-	-	-	(100)	(
ion to a noncontrolling	-	-	-	-	-	-	-	-	-	-	-	-	(643)	(
me	-	-	-	-	-	-	-	-	-	71,055	-	-	1,634	7
as of September 30, 2016	-	$-	31,621,369	$316	-	$-	-	$-	$392,836	$(197,065)	(916,515)	$(43,619)	$115,133	$2

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)

	Nine Months Ended September 30, 2016	2015
Cash flows from operating activities:		
Net income	$72,689	$48,967
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for bad debt	2,250	1,764
Amortization of broadcast rights, excluding barter	17,075	16,297
Depreciation of property and equipment	38,174	35,250
Amortization of intangible assets	34,903	35,648
(Gain) loss on asset disposal, net	(518)	922
Amortization of debt financing costs and debt discounts	3,394	2,756
Stock-based compensation expense	9,002	8,515
Deferred income taxes	30,150	26,513
Payments for broadcast rights	(17,242)	(16,280)
Deferred gain recognition	(327)	(327)
Amortization of deferred representation fee incentive	(880)	(836)
Non-cash representation contract termination fee	-	1,516
Excess tax benefit from stock option exercises	(13,428)	(7,914)
Change in the fair value of contingent consideration	3,483	-
Changes in operating assets and liabilities, net of acquisitions and dispositions:		
Accounts receivable	(22,845)	(11,633)
Prepaid expenses and other current assets	(20,387)	(2,002)
Other noncurrent assets	(132)	361
Accounts payable, accrued expenses and other current liabilities	14,737	10,600
Taxes payable	(48)	(20,699)
Interest payable	13,812	11,165
Other noncurrent liabilities	(868)	72
Net cash provided by operating activities	162,994	140,655
Cash flows from investing activities:		
Purchases of property and equipment	(25,642)	(21,282)
Deposits and payments for acquisitions, net of cash acquired	(103,970)	(461,678)
Proceeds from sale of a station	-	26,805
Proceeds from disposals of property and equipment	585	2,206
Net cash used in investing activities	(129,027)	(453,949)
Cash flows from financing activities:		
Proceeds from long-term debt	58,000	416,950
Repayments of long-term debt	(73,115)	(151,518)
Payments for debt financing costs	(19,282)	(3,225)
Purchase of treasury stock	-	(48,660)
Proceeds from exercise of stock options	387	3,327
Excess tax benefit from stock option exercises	13,428	7,914
Common stock dividends paid	(22,078)	(17,870)

Purchase of noncontrolling interests	(100)	-
Contribution from a noncontrolling interest	-	100
Distribution to a noncontrolling interest	(643)	-
Payments for capital lease obligations	(2,724)	(2,280)
Payments for contingent consideration in connection with an acquisition	(2,000)	-
Net cash (used in) provided by financing activities	(48,127)	204,738
Net decrease in cash and cash equivalents	(14,160)	(108,556)
Cash and cash equivalents at beginning of period	43,416	131,912
Cash and cash equivalents at end of period	$29,256	$23,356
Supplemental information:		
Interest paid	$68,111	$46,159
Income taxes paid, net of refunds	$27,405	$23,437
Non-cash investing and financing activities:		
Accrued purchases of property and equipment	$653	$1,661
Noncash purchases of property and equipment	$737	$3,863
Proceeds from the issuance of debt directly deposited into escrow	$900,402	$-
Consolidation of variable interest entities	$108,543	$-
Accrued debt financing costs	$798	$-

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 September 30, 2016, Nexstar Broadcasting Group, Inc. and its wholly-owned subsidiaries (“Nexstar”) owned, operated, programmed or provided sales and other services to 104 full power television stations, including those owned by variable interest entities (“VIEs”), in 62 markets in the states of Alabama, Arizona, Arkansas, California, Colorado, Florida, Illinois, Indiana, Iowa, Louisiana, Maryland, Michigan, Missouri, Montana, Nevada, New York, North Dakota, Pennsylvania, Tennessee, Texas, Utah, Vermont, Virginia, West Virginia and Wisconsin. The stations are affiliates of ABC, NBC, FOX, CBS, The CW, MyNetworkTV and other broadcast television networks. Through various local service agreements, Nexstar provided sales, programming and other services to 30 full power television stations owned and/or operated by independent third parties.

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 VIEs for which Nexstar is the primary beneficiary. Nexstar and the consolidated VIEs are collectively referred to as the “Company.” Noncontrolling interests represent the VIE owners’ share of the equity in the consolidated VIEs and are presented as a component separate from Nexstar Broadcasting Group, Inc. stockholders’ equity. All intercompany account balances and transactions have been eliminated in consolidation. 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. On August 2, 2016, Nexstar became the primary beneficiary of its variable interests in the stations currently owned by West Virginia Media Holdings, LLC (“WVMH”) and consolidated these stations as of that date. See Note 2—Variable Interest Entities for additional information.

The following are assets of consolidated VIEs that are not available to settle the obligations of Nexstar and liabilities of consolidated VIEs for which their creditors do not have recourse to the general credit of Nexstar (in thousands):

	September 30, 2016	December 31, 2015
Current assets	$ 4,342	$ 2,910
Property and equipment, net	7,075	4,004
Goodwill	46,314	18,182
FCC licenses	114,791	74,312
Other intangible assets, net	54,187	20,112
Other noncurrent assets, net	423	389
Total assets	227,132	119,909
Current liabilities	12,436	14,288

Noncurrent liabilities	25,609	26,427
Total liabilities	$ 38,045	$ 40,715

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 September 30, 2016 and for the three and nine months ended September 30, 2016 and 2015 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, 2015. The balance sheet as of December 31, 2015 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.

Variable Interest Entities

Nexstar may determine that an entity is a VIE as a result of local service agreements entered into with the owner-operator of an entity. The term local service agreement generally refers 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. A local service agreement can be (1) a time brokerage agreement (“TBA”) which allows Nexstar to program most of a station’s broadcast time, sell the station’s advertising time and retain the advertising revenue generated in exchange for monthly payments, based on the station’s monthly operating expenses, (2) a shared services agreement (“SSA”) which 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 as described in the SSA, or (3) a joint sales agreement (“JSA”) which permits Nexstar to sell certain of the station’s advertising time and retain a percentage of the related revenue, as described in the JSA. As of January 1, 2016, the Company adopted ASU No. 2015-02, Consolidation (Topic 810) - Amendments to the Consolidation Analysis, which did not change the consolidation status of any of the Company’s VIEs.

Consolidated VIEs

Mission Broadcasting, Inc. (“Mission”), Marshall Broadcasting Group, Inc. (“Marshall”), White Knight Broadcasting (“White Knight”) and Parker Broadcasting of Colorado, LLC (“Parker”) are consolidated by Nexstar because Nexstar is deemed under U.S. GAAP to have controlling financial interests in these entities for financial reporting purposes as a result of (1) local service agreements Nexstar has with the stations owned by these entities, (2) Nexstar’s guarantees of the obligations incurred under Mission’s and Marshall’s senior secured credit facilities (see Note 6), (3) Nexstar having power over significant activities affecting these entities’ economic performance, including budgeting for advertising revenue, certain advertising sales and, for Mission, White Knight and Parker, hiring and firing of sales force personnel and (4) purchase options granted by Mission and White Knight which permit Nexstar to acquire the assets and assume the liabilities of each Mission and White Knight station, subject to Federal Communications Commission (“FCC”) consent.

In connection with Nexstar’s acquisition of four full power television stations from WVMH, Nexstar began providing programming and sales services to these stations through a TBA with WVMH effective December 1, 2015. Pursuant to the terms of the agreement, Nexstar will pay an aggregate base fee of $7.5 million in equal monthly payments from the effective date through the final closing of the acquisition which is expected to occur at the end of 2016. Nexstar has determined that it has variable interests in the WVMH stations. However, if the acquisition is not consummated for reasons beyond the control of Nexstar and WVMH, the TBA will terminate no later than June 30, 2017. Thus, Nexstar previously determined that it was not the primary beneficiary of its variable interests on these stations. On August 2, 2016, Nexstar received approval from the FCC to acquire the stations' remaining assets. Due to this development, the acquisition becomes probable of occurring and Nexstar now holds the ultimate power to direct the activities that most significantly impact the stations' economic performance including developing the annual operating budget, advertising sales and oversight and control of sales force personnel. Therefore, Nexstar became the primary beneficiary of its variable interests and consolidated these stations as of August 2, 2016. See Note 3 for additional information.

The following table summarizes the various local service agreements Nexstar had in effect as of September 30, 2016 with Mission, Marshall, Parker, White Knight and WVMH:

Service Agreements	Owner	Full Power Stations
TBA Only	Mission	WFXP and KHMT
	Parker	KFQX
	WVMH	WOWK, WTRF, WVNS and WBOY
SSA & JSA	Mission	KJTL, KLRT, KASN, KOLR, KCIT, KAMC, KRBC, KSAN, WUTR, WAWV, WYOU, KODE, WTVO, KTVE, WTVW and WVNY
	Marshall	KLJB, KPEJ and KMSS
	White Knight	WVLA, KFXK, KSHV

Nexstar's ability to receive cash from Mission, Marshall, Parker, White Knight and the WVMH stations is governed by the local service agreements. Under these agreements, Nexstar has received substantially all of the consolidated VIEs' available cash, after satisfaction of operating costs and debt obligations. Nexstar anticipates it will continue to receive substantially all of the consolidated VIEs' available cash, after satisfaction of operating costs and debt obligations. In compliance with FCC regulations for all the parties, Mission, Marshall, Parker, White Knight and WVMH maintain complete responsibility for and control over programming, finances, personnel and operation of their stations.

The carrying amounts and classification of the assets and liabilities of the VIEs which have been included in the Condensed Consolidated Balance Sheets were as follows (in thousands):

	September 30, 2016	December 31, 2015
Current assets:		
Cash and cash equivalents	$ 7,030	$ 6,137
Accounts receivable, net	20,108	16,400
Prepaid expenses and other current assets	3,822	3,460
Total current assets	30,960	25,997
Property and equipment, net	30,919	29,681
Goodwill	97,955	69,825
FCC licenses	114,791	74,312
Other intangible assets, net	89,114	58,053
Other noncurrent assets, net	16,097	22,572
Total assets	$ 379,836	$ 280,440
Current liabilities:		
Current portion of debt	$ 8,334	$ 6,985
Interest payable	27	28
Other current liabilities	12,436	14,288
Total current liabilities	20,797	21,301
Debt	270,406	276,131
Other noncurrent liabilities	25,609	26,427
Total liabilities	$ 316,812	$ 323,859

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Non-Consolidated VIEs

Nexstar has an outsourcing agreement with Cunningham Broadcasting Corporation ("Cunningham"), which continues through December 31, 2017. Under the outsourcing agreement, Nexstar provides certain engineering, production, sales and administrative services for WYZZ, the FOX affiliate in the Peoria, Illinois market, through WMBD, the Nexstar television station in that market. During the term of the outsourcing agreement, Nexstar retains the broadcasting revenue and related expenses of WYZZ and is obligated to pay a monthly fee based on the combined operating cash flow of WMBD and WYZZ, as defined in the agreement.

Nexstar has determined that it has a variable interest in WYZZ. Nexstar has evaluated its arrangements with Cunningham and has determined that it is not the primary beneficiary of the variable interest in this station because it does not have the ultimate power to direct the activities that most significantly impact the station's economic performance, which we define as developing the annual operating budget, programming and oversight and control of sales management personnel. Therefore, Nexstar has not consolidated this station under authoritative guidance related to the consolidation of VIEs. Under the local service agreement for WYZZ, Nexstar pays for certain operating expenses, and therefore may have unlimited exposure to any potential operating losses. Nexstar's management believes that Nexstar's minimum exposure to loss under the WYZZ 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.

As discussed above, Nexstar previously determined that it was not the primary beneficiary of its variable interests in the stations currently owned by WVMH. On August 2, 2016, Nexstar became the primary beneficiary of its variable interests and consolidated these stations as of that date.

As of September 30, 2016 and December 31, 2015, Nexstar had balances in accounts payable of $0.2 million and $0.8 million, respectively, for fees under these arrangements and had receivables for advertising aired on these stations of $0.6 million and $1.0 million, respectively. Fees incurred under these arrangements of $0.2 million and $0.1 million for the three months ended September 30, 2016 and 2015, respectively, and $4.0 million and $0.5 million during each of the nine months then ended, were included in direct operating expenses in the Condensed Consolidated Statements of Operations.

Financial Instruments

The carrying amounts of cash and cash equivalents, accounts receivable, broadcast rights, accounts payable, broadcast rights payable and accrued expenses approximate fair value due to their short-term nature.

On July 27, 2016, Nexstar Escrow Corporation ("Nexstar Escrow"), a wholly-owned subsidiary of Nexstar, completed the sale and issuance of $900.0 million of 5.625% Senior Unsecured Notes due 2024 at par (the "5.625% Notes"). The gross proceeds from these notes, plus Nexstar's pre-funding of $14.1 million interest, have been deposited into a segregated escrow account and invested into money market funds and government obligations which are valued using quoted prices in active markets for identical assets (Level 1). These funds are restricted until certain conditions are satisfied, including the consummation of Nexstar's proposed merger with Media General, Inc. ("Media General") (See Notes 3 and 6). As of September 30, 2016, the pre-funded interest is included in prepaid expenses and other current assets and the gross proceeds from the notes plus the investment income earned are presented as non-current restricted cash in the accompanying Condensed Consolidated Balance Sheet.

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 attributable to Nexstar 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 and restricted stock units outstanding during the period and reflect the potential dilution that could occur if common stock were issued upon exercise of stock options and vesting of restricted stock units. The following table shows the amounts used in computing the Company's diluted shares (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Weighted average shares outstanding - basic	30,695	31,262	30,678	31,261
Dilutive effect of equity incentive plan instruments	1,003	889	941	1,002
Weighted average shares outstanding - diluted	31,698	32,151	31,619	32,263

Stock options and restricted stock units to acquire a weighted average of 224,000 shares and 879,000 shares for the three months ended September 30, 2016 and 2015, respectively, and 468,000 shares and 932,000 shares during each of the respective nine months then ended of Class A common stock were excluded from the computation of diluted earnings per share, because their impact would have been anti-dilutive.

Income Taxes

The Company expects to be able to utilize the excess tax benefits related to stock option exercises that occurred in 2013 during the 2016 tax year. This resulted in a recognition of $13.2 million of deferred tax assets through accumulated paid in capital during the nine months ended September 30, 2016.

Basis of Presentation

Certain prior year financial statement amounts have been reclassified to conform to the current year presentation. These reclassifications had no effect on net income or stockholders' equity as previously reported.

Recent Accounting Pronouncements

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606) (ASU 2014-09), which updates the accounting guidance on revenue recognition. This standard is intended to provide a more robust framework for addressing revenue issues, improve comparability of revenue recognition practices and improve disclosure requirements. The standard is effective for interim and annual reporting periods beginning after December 15, 2017. Transition to the new guidance may be done using either a full or modified retrospective method. The Company is currently evaluating the impact of the provisions of the accounting standard update.

In April 2015, the FASB issued ASU 2015-05, Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer's Accounting for Fees Paid in a Cloud Computing Arrangement (ASU 2015-05). ASU 2015-05 provides guidance to customers about whether a cloud computing arrangement includes software. If a cloud computing arrangement includes a software license, the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. The new guidance does not change the accounting for a customer's service contracts. The Company has applied the change in accounting prospectively as of January 1, 2016. The change in accounting principle did not have a significant impact on the Company's results of operations, cash flows or stockholders' equity.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842) (ASU 2016-02). The new guidance requires the recording of assets and liabilities arising from leases on the balance sheet accompanied by enhanced qualitative and quantitative disclosures in the notes to the financial statements. The new guidance is expected to provide transparency of information and comparability among organizations. ASU 2016-02 is effective for interim and annual reporting periods beginning after December 15, 2018, with early adoption permitted. The Company is currently evaluating the impact of the provisions of the accounting standard update.

In March 2016, the FASB issued ASU No. 2016-07, Investments – Equity Method and Joint Ventures (Topic 323): Simplifying the Transition to the Equity Method of Accounting (ASU 2016-07). The purpose of the amendment eliminates the requirement that when an investment qualifies for use of the equity method as a result of an increase in the level of ownership interest or degree of influence, an investor must adjust the investment, results of operations, and retained earnings retroactively on a step-by step basis as if the equity method had been in effect during all previous periods that the investment had been held. The amendments in ASU 2016-07 are effective for interim and annual reporting periods beginning after December 15, 2016. The Company does not expect the implementation of this standard to have a material impact on its financial position or results of operations.

In March 2016, the FASB issued ASU No. 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting (ASU 2016-09). The standard is intended to simplify several areas of accounting for share-based compensation arrangements, including the income tax impact, classification on the statement of cash flows and forfeitures. ASU 2016-09 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016, and early adoption is permitted. The Company is currently evaluating the impact of the provisions of the accounting standard update.

In March 2016, the FASB issued ASU No. 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (ASU 2016-08). The purpose of ASU 2016-08 is to clarify the implementation of guidance on principal versus agent considerations. In April 2016, the FASB issued ASU No. 2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing (ASU 2016-10), which clarifies the implementation guidance in identifying performance obligations in a contract and determining whether an entity's promise to grant a license provides a customer with either a right to use the entity's intellectual property (which is satisfied at a point in time) or a right to access the entity's intellectual property (which is satisfied over time). In May 2016, the FASB issued ASU No. 2016-12, Revenue from Contracts with Customers: Narrow-Scope Improvements and Practical Expedients (ASU 2016-12). The standard amends guidance in the new revenue standard on collectibility, noncash consideration, presentation of sales tax, and transition and are intended to address implementation issues that were raised by stakeholders and provide additional practical expedients. The effective date and transition requirements for ASU 2016-08, ASU 2016-10 and ASU 2016-12 are the same as those for ASU 2014-09 discussed above. The Company is currently evaluating the impact of these updates on its financial statements.

In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows (Topic 230) Classification of Certain Cash Receipts and Cash Payments (a consensus of the Emerging Issues Task Force) (ASU 2016-15). The amendments in ASU 2016-15 address eight specific cash flow issues and apply to all entities that are required to present a statement of cash flows under FASB Accounting Standards Codification 230, Statement of Cash Flows. The amendments in ASU 2016-15 are effective for fiscal years, and interim periods within those years, beginning after December 15, 2017. Early adoption is permitted, including adoption during an interim period. The Company does not expect the implementation of this standard to have a material impact on its statements of cash flows.

3. Acquisitions and Dispositions

WVMH

On November 16, 2015, Nexstar entered into a definitive agreement to acquire the assets of four CBS and NBC full power television stations from WVMH for $130.0 million in cash, subject to adjustments for working capital. The stations affiliated with CBS are WOWK in the Charleston-Huntington, West Virginia market, WTRF in the Wheeling, West Virginia-Steubenville, Ohio market and WVNS in the Bluefield-Beckley-Oak Hill, West Virginia market. WBOY in the Clarksburg-Weston, West Virginia market is affiliated with NBC. The acquisition will allow Nexstar entrance into these markets. Nexstar began providing programming and sales services to these stations pursuant to a TBA effective December 1, 2015 which will terminate upon completion of the acquisition.

On January 4, 2016, Nexstar completed the first closing of the transaction and acquired the stations' assets excluding certain transmission equipment, the FCC licenses and network affiliation agreements for $65.0 million, including a deposit paid upon signing the purchase agreement of $6.5 million, all funded through a combination of cash on hand and borrowings under Nexstar's revolving credit facility (See Note 6).

Subject to final determination, which is expected to occur within twelve months of the acquisition date, the provisional fair values of the assets acquired and liabilities assumed in the first closing are as follows (in thousands):

Accounts receivable	$438
Prepaid expenses and other current assets	114
Property and equipment	18,362
Other intangible assets	3,402
Goodwill	35
Total assets acquired at first closing	22,351
Less: Accounts payable and accrued expenses	(623)
Less: Other noncurrent liabilities	(307)
Net assets acquired at first closing	21,421
Deposit on second closing	43,543
Total paid at first closing	$64,964

Other intangible assets are amortized over an estimated weighted average useful life of three years.

The arrangement with WVMH allows Nexstar to return the assets acquired in the first closing if the second closing cannot be completed for reasons beyond the control of Nexstar and WVMH. Since not all assets needed to operate the stations were acquired in January 2016, the first closing does not represent an acquisition of a business. Thus, the excess of total payments in the first closing over the provisional fair values of the assets acquired and liabilities assumed was considered a deposit.

As discussed in Note 2, Nexstar became the primary beneficiary of its variable interests in WVMH's stations upon receiving FCC approval on August 2, 2016 to acquire the stations' remaining assets. Therefore, Nexstar has consolidated these assets under authoritative guidance related to the consolidation of VIEs as of this date. Subject to final determination, which is expected to occur within twelve months of the acquisition date, the provisional fair values of the remaining assets consolidated are as follows (in thousands):

Broadcast rights	$ 527
Property and equipment	3,489
FCC licenses	41,230
Network affiliation agreements	35,387
Goodwill	28,437
Consolidated assets of VIEs	109,070
Less: Broadcast rights payable	(527)
Consolidated net asset of VIEs	$ 108,543

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 assets related to the network affiliation agreements are amortized over 15 years.

The consolidation of the remaining assets of the WVMH stations resulted in non-controlling interests of $108.5 million, representing the estimated fair value attributable to the owners.

The remaining purchase price of $65.0 million is expected to be funded through cash generated from operations prior to the second closing and borrowings under Nexstar's senior secured credit facility which is expected to occur at the end of 2016. Transaction costs relating to this acquisition, including legal and professional fees of $0.1 million, were expensed as incurred during the nine months ended September 30, 2016.

The stations' net revenue of $9.0 million and operating income of $1.5 million from August 2, 2016 to September 30, 2016 have been included in the accompanying Condensed Consolidated Statements of Operations.

Reiten

On February 1, 2016, Nexstar completed the acquisition of the assets of four full power television stations from Reiten Television, Inc. ("Reiten") for $44.0 million in cash, funded by a combination of cash on hand and borrowings under Nexstar's revolving credit facility (See Note 6). The purchase price includes a $2.2 million deposit paid by Nexstar upon signing the purchase agreement in September 2015. The stations, all affiliated with CBS at acquisition, are KXMA, KXMB, KXMC and KXMD in the Minot-Bismarck-Dickinson, North Dakota market. KXMA, KXMB and KXMD are satellite stations of KXMC. This acquisition allows Nexstar entrance into this market. Transaction costs relating to this acquisition, including legal and professional fees of $0.1 million, were expensed as incurred during the nine months ended September 30, 2016.

Subject to final determination, which is expected to occur within twelve months of the acquisition date, the provisional fair values of the assets acquired and liabilities assumed in the acquisition are as follows (in thousands):

Broadcast rights	$13
Property and equipment	8,139
FCC licenses	9,779
Network affiliation agreements	16,084
Other intangible assets	2,073
Goodwill	7,931
Total assets acquired	44,019
Less: Broadcast rights payable	(13)
Less: Accounts payable and accrued expenses	(8)
Net assets acquired	$43,998

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 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 two and a half years.

The stations’ net revenue of $2.6 million and break-even from operations during the three months ended September 30, 2016 and net revenue of $8.1 million and operating income of $0.7 million from the date of acquisition to September 30, 2016 have been included in the accompanying Condensed Consolidated Statements of Operations.

KCWI

On March 14, 2016, Nexstar completed the acquisition of the assets of KCWI, the CW affiliate in the Des Moines-Ames, Iowa market, from Pappas Telecasting of Iowa, LLC ("Pappas") for $3.9 million. A deposit of $0.2 million was paid upon signing the purchase agreement in October 2014. No significant transaction costs relating to this acquisition were incurred during the nine months ended September 30, 2016.

Subject to final determination, which is expected to occur within twelve months of the acquisition date, the provisional fair values of the assets acquired and liabilities assumed in the acquisition are as follows (in thousands):

Accounts receivable	$380
Broadcast rights	1,740
Prepaid expenses and other current assets	40
Property and equipment	1,076
FCC licenses	2,180
Other intangible assets	2
Goodwill	367
Total assets acquired	5,785
Less: Broadcast rights payable	(1,886)
Less: Accrued expenses	(17)
Net assets acquired	$3,882

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.

KCWI's net revenue of $1.2 million and operating income of $1.1 million during the three months ended September 30, 2016 and net revenue of $2.0 million and operating income of $1.8 million from the date of acquisition to September 30, 2016 have been included in the accompanying Condensed Consolidated Statements of Operations.

Kixer

In October 2015, Lakana LLC, a wholly-owned subsidiary of Nexstar, acquired Kixer, Inc. ("Kixer") from Centrility, LLC, Keith Bonnici and Know Media, LLC. In addition to the base purchase price that Nexstar paid in October 2015, the sellers could also receive up to $7.0 million in cash payments if certain revenue targets are met during the year 2016 (the "Earnout Payments"). In September 2016, payments totaling $2.0 million were made to the sellers under this arrangement. The estimated fair value of remaining obligations under the Earnout Payments was $4.4 million as of September 30, 2016 and $3.0 million as of December 31, 2015, included in accrued expenses in the Condensed Consolidated Balance Sheets. The increases in the accrual is attributable to periodic re-measurement of the estimated fair value which have been included in selling, general and administrative expense, excluding depreciation and amortization in the accompanying Condensed Consolidated Statements of Operations.

Unaudited Pro Forma Information

The acquisitions of four full power television stations from Reiten, four full power television stations from WVMH, KCWI from Pappas and Kixer from Centrility, LLC, Keith Bonnici and Know Media, LLC are not significant for financial reporting purposes, both individually and in aggregate. Therefore, pro forma information has not been provided for these acquisitions.

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Future Acquisition

Media General

On January 27, 2016, Nexstar entered into a definitive merger agreement with Media General, whereby Nexstar will acquire the latter's outstanding equity for $10.55 per share in cash and 0.1249 of a share of Nexstar's Class A common stock for each Media General share. The terms of the agreement also include potential additional consideration to Media General shareholders in the form of a non-transferable contingent value right ("CVR") for each Media General share entitling Media General shareholders to net cash proceeds, if any, from the sale of Media General's spectrum in the FCC's spectrum auction. Depending on the timing of the FCC auction, the CVR may be issued before or at the time of the merger. Each unvested Media General stock option outstanding prior to the completion of the merger will become fully vested and will be converted into an option to purchase Nexstar's Class A common stock, pursuant to the terms of the merger agreement. Additionally, unless the CVR has been issued prior to the completion of the merger, the holders of Media General stock options will also be entitled to one CVR for each share subject to the Media General stock option immediately prior to the completion of the merger. All other equity-based awards of Media General that are outstanding prior to the merger will vest in full and will be converted into the right to receive the cash, stock and contingent consideration as described above, subject to the terms of the merger agreement. The total consideration for this proposed acquisition is approximately $2.3 billion in cash and stock, estimated based on Nexstar's Class A common stock market price per share of $57.71 on September 30, 2016 and Media General's diluted common shares outstanding, plus the potential CVR. It is estimated that the existing Nexstar shareholders will own approximately 66% and Media General shareholders will own approximately 34% of the combined company's outstanding shares after closing. The transaction costs relating to this proposed acquisition, including legal and professional fees of $0.9 million and $7.1 million, were expensed as incurred during the three and nine months ended September 30, 2016, respectively.

The merger agreement contains certain termination rights for both Nexstar and Media General. If the merger agreement is terminated in connection with Media General entering into a definitive agreement for a superior proposal, as well as under certain other circumstances, the termination fee payable to Nexstar will be $80.0 million. The merger agreement also provides that Nexstar will be required to pay a termination fee to Media General of $80.0 million if the merger agreement is terminated under certain circumstances. Either party may terminate the merger agreement if the merger is not consummated on or before January 27, 2017, with an automatic extension to April 27, 2017, if necessary to obtain regulatory approval under circumstances specified in the merger agreement.

Nexstar received committed financing up to a maximum of $4.7 billion from a group of commercial banks to provide the debt financing in the form of credit facilities and notes to consummate the merger and to refinance certain existing indebtedness of the Company and Media General. The debt refinancing will include the outstanding obligations under the Company's term loans and revolving credit facilities. On July 27, 2016, Nexstar Escrow completed the sale and issuance of $900.0 million of 5.625% Notes at par. The proceeds, which were deposited into a segregated escrow account, are expected to be used to partially finance the merger and to refinance certain existing indebtedness of Nexstar and Media General at closing. See Note 6 for additional information with respect to these notes.

On June 8, 2016, the merger was approved by the shareholders of both companies. The merger is subject to FCC regulatory approval and other customary closing conditions. In order to comply with the FCC’s local television ownership rule, to meet the U.S. television household national ownership cap and to obtain FCC and Department of Justice approval of the proposed merger, Nexstar entered into various definitive agreements in May and June 2016 to sell: (i) the assets of two television stations in two markets to Graham Media Group, Inc. for a total consideration of $120.0 million, plus working capital adjustments, (ii) the assets of two stations in one market to Bayou City Broadcasting Lafayette, Inc. for $40.0 million in cash, plus working capital adjustments, (iii) the assets of one station to Marquee Broadcasting, Inc. for $350 thousand in cash, (iv) the assets of two television stations in two markets to Gray Television Group, Inc. for $270.0 million in cash, plus working capital adjustments, (v) the assets of five stations in five markets to USA Television MidAmerican Holdings, LLC (an affiliate of MSouth Equity Partners and Heartland Media, LLC) for $115.0 million in cash, plus working capital adjustments, and (vi) certain assets of one station to Ramar Communications, Inc. for $2.5 million in cash, plus working capital adjustments. Six of the proposed station divestitures are currently owned by Nexstar and seven are currently owned by Media General. The proceeds are expected to be used to partially finance the merger and the refinancing of certain existing indebtedness of the Company and Media General at closing.

Upon completion of the merger, the required divestitures and the debt refinancing, which are all expected to occur in the fourth quarter of 2016, the combined company will be named Nexstar Media Group, Inc.

4. Intangible Assets and Goodwill

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

	Estimated useful life, in years	September 30, 2016			December 31, 2015		
		Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
Network affiliation agreements	15	$659,054	$ (350,693)	$308,361	$614,592	$ (338,016)	$276,576
Other definite-lived intangible assets	1-15	90,398	(62,353)	28,045	84,921	(47,136)	37,785
Other intangible assets		$749,452	$ (413,046)	$336,406	$699,513	$ (385,152)	$314,361

The increases in network affiliation agreements and other definite-lived intangible assets relate to Nexstar's acquisitions as discussed in Note 3.

The following table presents the Company's estimate of amortization expense for the remainder of 2016, each of the five succeeding years ended December 31 and thereafter for definite-lived intangible assets as of September 30, 2016 (in thousands):

Remainder of 2016	$11,599
2017	41,614
2018	30,865
2019	28,224
2020	24,910
2021	24,697
Thereafter	174,497
	$336,406

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

Goodwill