NEXSTAR MEDIA GROUP, INC.
Form 10-Q
May 09, 2018
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 March 31, 2018

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 MEDIA 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, smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 May 9, 2018, the registrant had 45,734,486 shares of Class A Common Stock outstanding.

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PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements
NEXSTAR MEDIA GROUP, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except share information, unaudited)

	March 31, 2018	December 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	$109,121	$115,652
Accounts receivable, net of allowance for doubtful accounts of $13,830 and $13,358, respectively	542,725	562,943
Spectrum asset	305,773	305,764
Prepaid expenses and other current assets	44,010	71,859
Total current assets	1,001,629	1,056,218
Property and equipment, net	725,273	734,138
Goodwill	2,183,998	2,142,846
FCC licenses	1,767,638	1,767,638
Other intangible assets, net	1,592,617	1,581,626
Other noncurrent assets, net	186,468	199,181
Total assets[(1)]	$7,457,623	$7,481,647
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of debt	$92,174	$92,808
Current portion of broadcast rights payable	6,843	16,659
Accounts payable	80,819	31,136
Accrued expenses	145,367	159,281
Interest payable	29,204	39,563
Liability to surrender spectrum asset	314,087	314,087
Other current liabilities	16,661	17,169
Total current liabilities	685,155	670,703
Debt	4,243,161	4,269,652
Deferred tax liabilities	627,459	619,441
Other noncurrent liabilities	320,344	340,541
Total liabilities[(1)]	5,876,119	5,900,337
Commitments and contingencies (Note 13)		
Stockholders' equity:		
Preferred stock - $0.01 par value, 200,000 shares authorized; none issued and outstanding at each of March 31, 2018 and December 31, 2017	-	-
Class A Common stock - $0.01 par value, 100,000,000 shares authorized; 47,291,463 shares issued,	473	473

45,734,486 shares outstanding as of March 31, 2018 and 47,291,463 shares issued, 45,966,414 shares outstanding as of December 31, 2017		
Class B Common stock - $0.01 par value, 20,000,000 shares authorized; none issued and outstanding at each of March 31, 2018 and December 31, 2017	-	-
Class C Common stock - $0.01 par value, 5,000,000 shares authorized; none issued and outstanding at each of March 31, 2018 and December 31, 2017	-	-
Additional paid-in capital	1,331,683	1,342,541
Accumulated other comprehensive income	6,140	6,140
Retained earnings	330,357	299,523
Treasury stock - at cost; 1,556,977 and 1,325,049 shares at March 31, 2018 and December 31, 2017, respectively	(97,290)	(78,063)
Total Nexstar Media Group, Inc. stockholders' equity	1,571,363	1,570,614
Noncontrolling interests in consolidated variable interest entities	10,141	10,696
Total stockholders' equity	1,581,504	1,581,310
Total liabilities and stockholders' equity	$7,457,623	$7,481,647

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

(1) The consolidated total assets as of March 31, 2018 and December 31, 2017 include certain assets held by consolidated variable interest entities (“VIEs”) of $408.4 million and $426.9 million, respectively, which are not available to be used to settle the obligations of Nexstar. The consolidated total liabilities as of March 31, 2018 and December 31, 2017 include certain liabilities of consolidated VIEs of $69.8 million and $81.8 million, respectively, for which the creditors of the VIEs have no recourse to the general credit of Nexstar. See Note 2 for additional information.

NEXSTAR MEDIA GROUP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share information, unaudited)

	Three Months Ended March 31,	
	2018	2017
Net revenue	$615,336	$540,317
Operating expenses (income):		
Direct operating expenses, excluding depreciation and amortization	278,963	218,729
Selling, general, and administrative expenses, excluding depreciation and amortization	141,905	176,933
Amortization of broadcast rights	16,100	24,467
Amortization of intangible assets	36,302	48,158
Depreciation	25,814	22,226
Reimbursement from the FCC related to station repack	(1,364)	-
Gain on disposal of stations, net	-	(57,716)
Total operating expenses	497,720	432,797
Income from operations	117,616	107,520
Interest expense, net	(54,589)	(79,237)
Loss on extinguishment of debt	(1,005)	(31,804)
Pension and other postretirement plans credit, net	2,950	2,631
Other income (expenses)	(127)	(107)
Income (loss) before income taxes	64,845	(997)
Income tax (expense) benefit	(17,504)	5,941
Net income	47,341	4,944
Net loss attributable to noncontrolling interests	781	1,105
Net income attributable to Nexstar Media Group, Inc.	$48,122	$6,049
Net income per common share attributable to Nexstar Media Group, Inc.:		
Basic	$1.04	$0.14
Diluted	$1.01	$0.13
Weighted average number of common shares outstanding:		
Basic	46,075	44,200
Diluted	47,685	45,419
Dividends declared per common share	$0.375	$0.30

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

NEXSTAR MEDIA GROUP, INC.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

For the Three Months Ended March 31, 2018

(in thousands, except share information, unaudited)

	Class A Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock		Noncontrolling interests	Total Stockhol
	Shares	Amount				Shares	Amount		Equity
ances as of December 31, 2017	47,291,463	$473	$1,342,541	$299,523	$6,140	(1,325,049)	$(78,063)	$10,696	$1,581,3
rchase of treasury stock	-	-	-	-	-	(501,920)	(33,820)	-	(33,820
ck-based compensation expense	-	-	6,400	-	-	-	-	-	6,400
sting of restricted stock units and exercise stock options	-	-	(17,258)	-	-	269,992	14,593	-	(2,665
mmon stock dividends declared	-	-	-	(17,288)	-	-	-	-	(17,288
ntribution from a noncontrolling erest	-	-	-	-	-	-	-	226	226
income (loss)	-	-	-	48,122	-	-	-	(781)	47,341
ances as of March 31, 2018	47,291,463	$473	$1,331,683	$330,357	$6,140	(1,556,977)	$(97,290)	$10,141	$1,581,50

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

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NEXSTAR MEDIA GROUP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands, unaudited)

	Three Months Ended March 31,	
	2018	2017
Cash flows from operating activities:		
Net income	$47,341	$4,944
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for bad debt	3,294	1,542
Amortization of broadcast rights, excluding barter	16,100	14,236
Depreciation of property and equipment	25,814	22,226
Amortization of intangible assets	36,302	48,158
Gain on asset disposal, net	(59)	(57,622)
Amortization of debt financing costs and debt discounts	2,626	2,690
Loss on extinguishment of debt	1,005	31,804
Stock-based compensation expense	6,400	4,810
Deferred income taxes	184	(16,567)
Payments for broadcast rights	(16,249)	(13,335)
Payments for contingent consideration in connection with an acquisition	-	(4,044)
Other noncash credits, net	(404)	(431)
Changes in operating assets and liabilities, net of acquisitions and dispositions:		
Accounts receivable	42,949	7,273
Prepaid expenses and other current assets	(1,243)	9,103
Other noncurrent assets	(1,567)	(1,851)
Accounts payable, accrued expenses and other current liabilities	12,887	(61,270)
Taxes payable	18,547	(944)
Interest payable	(10,359)	(32,580)
Other noncurrent liabilities	(4,203)	(5,927)
Net cash provided by (used in) operating activities	179,365	(47,785)
Cash flows from investing activities:		
Purchases of property and equipment	(21,092)	(13,914)
Payments for acquisitions, net of cash acquired	(82,790)	(2,971,194)
Proceeds from sale of stations	-	481,944
Proceeds from disposals of property and equipment	2,847	404
Net cash used in investing activities	(101,035)	(2,502,760)
Cash flows from financing activities:		
Proceeds from long-term debt, net of debt discounts	44,000	3,081,861
Repayments of long-term debt	(74,579)	(1,320,799)
Premium paid on debt extinguishment	-	(18,050)
Payments for debt financing costs	-	(51,357)
Contribution from (distributions to) a noncontrolling interest, net	226	(243)
Purchase of treasury stock	(33,820)	-
Proceeds from exercise of stock options	1,878	2,841
Common stock dividends paid	(17,288)	(14,106)
Purchase of noncontrolling interests	-	(66,901)
Payments for contingent consideration in connection with an acquisition	-	(956)
Cash paid for shares withheld for taxes	(4,543)	(3,858)

Payments for capital lease obligations	(735)	(474)
Net cash (used in) provided by financing activities	(84,861)	1,607,958
Net decrease in cash, cash equivalents and restricted cash	(6,531)	(942,587)
Cash, cash equivalents and restricted cash at beginning of period	115,652	1,015,479
Cash, cash equivalents and restricted cash at end of period	$109,121	$72,892
Supplemental information:		
Interest paid	$62,322	$100,552
(Income tax refund, net of taxes paid) income taxes paid, net of refunds	$(1,225)	$3,605
Non-cash investing and financing activities:		
Accrued purchases of property and equipment	$4,080	$2,438
Noncash purchases of property and equipment	$-	$19
Debt assumed in connection with a merger	$-	$434,269
Issuance/reissuance of Class A Common Stock in connection with a merger	$-	$1,031,485
Stock option replacement awards in connection with a merger	$-	$10,702
Contingent consideration payable in connection with a merger	$-	$264,965

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

NEXSTAR MEDIA GROUP, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Organization and Business Operations

As of March 31, 2018, Nexstar Media Group, Inc. and its wholly-owned subsidiaries ("Nexstar") owned, operated, programmed or provided sales and other services to 169 full power television stations, including those owned by VIEs, in 100 markets in the states of Alabama, Arizona, Arkansas, California, Colorado, Connecticut, Florida, Georgia, Hawaii, Illinois, Indiana, Iowa, Kansas, Louisiana, Maryland, Massachusetts, Michigan, Mississippi, Missouri, Montana, Nevada, New Mexico, New York, North Carolina, North Dakota, Ohio, Oregon, Pennsylvania, Rhode Island, South Carolina, South Dakota, 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 36 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 (See Note 2—Variable Interest Entities). 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 Media 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.

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

	March 31, 2018	December 31, 2017
Current assets		
Spectrum asset	$26,695	$26,695
Other current assets	18,839	22,038
Total current assets	45,534	48,733
Property and equipment, net	7,264	7,517
Goodwill	121,601	130,362
FCC licenses	151,808	151,808
Other intangible assets, net	80,252	81,916

Other noncurrent assets, net	1,937	6,543
Total assets	408,396	426,879
Current Liabilities		
Liability to surrender spectrum asset	$27,347	$27,347
Other current liabilities	17,214	24,146
Total current liabilities	44,561	51,493
Noncurrent liabilities	25,256	30,339
Total liabilities	$69,817	$81,832

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 March 31, 2018 and for the three months ended March 31, 2018 and 2017 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, 2017. The balance sheet as of December 31, 2017 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

The Company may determine that an entity is a VIE as a result of local service agreements entered into with 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") or a local marketing agreement ("LMA") 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.

Consolidated VIEs

Nexstar consolidates entities in which Nexstar is deemed under U.S. GAAP to have controlling financial interests 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 certain VIEs' senior secured credit facilities (see Note 7), (3) Nexstar having power over significant activities affecting these VIEs' economic performance, including budgeting for advertising revenue, certain advertising sales and, in some cases, hiring and firing of sales force personnel and (4) purchase options granted by each VIE, exclusive of Marshall Broadcasting Group, Inc. ("Marshall"), which permit Nexstar to acquire the assets and assume the liabilities of each of the VIEs' stations, subject to Federal Communications Commission ("FCC") consent.

The following table summarizes the various local service agreements Nexstar had in effect as of March 31, 2018 with its consolidated VIEs:

Service Agreements	Owner	Full Power Stations
TBA Only	Mission Broadcasting, Inc. ("Mission")	WFXP, KHMT and KFQX
LMA Only	WNAC, LLC	WNAC
	54 Broadcasting, Inc. ("54 Broadcasting")	KNVA
SSA & JSA	Mission	KJTL, KLRT, KASN, KOLR, KCIT, KAMC, KRBC, KSAN, WUTR, WAWV, WYOU, KODE, WTVO, KTVE, WTVW and WVNY
	White Knight Broadcasting ("White Knight")	WVLA, KFXK, KSHV
	Shield Media, LLC ("Shield")	WXXA and WLAJ
	Vaughan Media, LLC ("Vaughan")	WBDT, WYTV and KTKA
SSA Only	Marshall	KLJB, KPEJ and KMSS
	Tamer Media, LLC ("Tamer")	KWBQ, KASY and KRWB

Nexstar's ability to receive cash from its VIEs 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, each VIE maintains complete responsibility for and control over programming, finances, personnel and operations of its 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):

	March 31, 2018	December 31, 2017
Current assets:		
Cash and cash equivalents	$11,515	$17,180
Accounts receivable, net	23,611	24,407
Spectrum asset	26,695	26,695
Prepaid expenses and other current assets	3,795	6,762
Total current assets	65,616	75,044
Property and equipment, net	25,359	25,971
Goodwill	154,788	163,549
FCC licenses	151,808	151,808
Other intangible assets, net	95,549	97,757
Other noncurrent assets, net	5,099	9,443
Total assets	$498,219	$523,572
Current liabilities:		
Current portion of debt	$55,931	$56,565
Interest payable	1,123	994
Liability to surrender spectrum asset	27,347	27,347
Other current liabilities	17,214	24,146
Total current liabilities	101,615	109,052
Debt	245,073	245,523
Other noncurrent liabilities	25,256	30,594
Total liabilities	$371,944	$385,169

Non-Consolidated VIEs

Nexstar has an outsourcing agreement with Cunningham Broadcasting Corporation (“Cunningham”), which continues through December 31, 2021. 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, including developing the annual operating budget, programming and oversight and control of sales management personnel. Therefore, Nexstar has not consolidated WYZZ 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 Cunningham from and against all liability and claims arising out of or resulting

from Nexstar's 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. There were no significant transactions arising from Nexstar's outsourcing agreement with Cunningham.

Revenue Recognition

As discussed in Recent Accounting Pronouncements below, the Company adopted the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606) and all related amendments. ASC 606 establishes a comprehensive new revenue recognition model designed to depict the transfer of goods or services to a customer in an amount that reflects the consideration the entity expects to be entitled to receive in exchange for those goods or services and requires significantly enhanced revenue disclosures. The Company adopted this standard effective January 1, 2018 using the modified retrospective method as applied to customer contracts that were not completed as of January 1, 2018. As a result, financial information for reporting periods beginning after January 1, 2018 is presented under ASC 606, while comparative financial information has not been adjusted and continues to be reported in accordance with the Company's historical accounting policy for revenue recognition prior to the adoption of ASC 606.

The Company's revenue is primarily derived from the sale of advertising and the compensation received from cable, satellite and other multichannel video programming distributors ("MVPDs") in its markets in return for the Company's consent to the retransmission of the signals of its television stations. Total revenue includes advertising revenue, retransmission compensation, digital revenue and other broadcast related revenues. The Company determines whether gross or net presentation is appropriate based on its relationship in the applicable transaction with its ultimate customer. Any amounts paid by customers but not earned as of the balance sheet date are recorded as a contract liability (deferred revenue). The lag between billing the customers and when the payment is due is not significant.

The stations' advertising contracts are short-term in nature and include a number of spots that are delivered over the term of the arrangement. Advertising revenue is recognized, for the amount the Company is entitled to receive, when the advertisements are broadcast on its stations (local, national and political revenue) or delivered on the stations' websites (digital revenue).

The Company's retransmission consent agreements with MVPDs generally have a three-year term and provides revenue based on the number of subscribers. Under ASC 606, these revenues are considered arising from the licenses of intellectual property. As such, the Company applies the exception for sales- or usage- based royalty for the accounting of variable consideration and recognizes revenue when the underlying usage occurs. Retransmission compensation is recognized as the content is transferred to the MVPDs and is based on a price per subscriber. The MVPDs report their subscriber numbers to the Company on a 30- to 60-day lag, which coincides with their payment of the fees due to the Company. Prior to receiving the report from the MVPDs, the Company records revenue based on estimated subscribers and the monthly amount the Company is entitled to receive per subscriber. The impact of the lag is not significant.

Revenue from the Company's other digital businesses includes revenue from digital publishing and content management platforms, digital video advertising platform, social media advertising platform and related services. Revenue is recognized at the time advertising is delivered or upon performance of services. The Company applies the right to invoice practical expedient to certain transactions where the invoice amount corresponds directly with the value to our customers. Most of the arrangements with customers are short-term in nature.

The Company trades certain advertising time for various goods and services. These transactions are short-term in nature and are recorded at the estimated fair value of the goods or services received. Revenue from trade transactions is recognized when the related advertisement spots are broadcast. The Company recorded $2.8 million and $2.2 million of trade revenue during the three months ended March 31, 2018 and 2017, respectively.

The above revenue recognition policies are consistent with the Company's historical accounting policies prior to the adoption of ASC 606.

Effective on January 1, 2018, the Company no longer recognizes barter revenue (and the related barter expense) resulting from the exchange of advertising time for certain program material. During the three months ended March 31, 2017, barter revenue and barter expense were $10.2 million and $10.2 million, respectively. The barter expense was included in amortization of broadcast rights in the accompanying Condensed Consolidated Statement of Operations. As of December 31, 2017, the current barter assets (and the related current barter liabilities) were $9.7 million, and the noncurrent barter assets (and the related noncurrent barter liabilities) were $12.5 million. As of January 1, 2018, the barter assets and the barter liabilities were netted down upon the adoption of ASC 606.

Under the Company’s historical accounting policy prior to the adoption of ASC 606, barter revenue and barter expense would have been $11.0 million and $11.0 million, respectively, during the three months ended March 31, 2018. In addition, the current barter assets (and the related current barter liabilities) would have been $8.2 million, and the noncurrent barter assets (and the related noncurrent barter liabilities) would have been $10.6 million as of March 31, 2018.

The Company elected to utilize the practical expedient around costs incurred to obtain a contract for television advertising and digital advertising due to their short-term nature. Additionally, the incremental benefit from efforts in acquiring these contracts is considered not significant. Thus, the Company continued to expense sales commissions when incurred.

The Company did not disclose the value of unsatisfied performance obligations on its contracts with customers because they are either (i) contracts with an original expected term of one year or less, (ii) contracts for which the sales- or usage- based royalty exception was applied, or (ii) contracts for which revenue is recognized in proportion to the amount the Company has the right to invoice for services performed.

See Note 9 for additional disclosures on revenue from contracts with customers.

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.

See Note 3 for fair value disclosures of contingent consideration in connection with the acquisition of Likqid Media Inc. ("LKQD"). See Note 7 for fair value disclosures related to the Company's debt.

Pension Plans and Postretirement Benefits

A determination of the liabilities and cost of the Company's pension and other postretirement plans requires the use of assumptions. The actuarial assumptions used in the Company's pension and postretirement reporting are reviewed annually with independent actuaries and are compared with external benchmarks, historical trends and the Company's own experience to determine that its assumptions are reasonable. The assumptions used in developing the required estimates include the following key factors: discount rates, expected return on plan assets, mortality rates, health care cost trends, retirement rates and expected contributions. The amount by which the projected benefit obligation exceeds the fair value of the pension plan assets is recorded in other noncurrent liabilities in the accompanying Condensed Consolidated Balance Sheet.

As discussed under Recent Accounting Pronouncements, as of January 1, 2018 the Company adopted ASU No. 2017-07 which requires entities to (1) disaggregate the current-service-cost component from the other components of net benefit cost (the "other components") and present such current-service-costs in the same income statement line item as other compensation costs for services rendered by the pertinent employees during the period and (2) present the other components in the income statement separately from the service cost component and outside a subtotal of income from operations. The Company had no service costs during the three months ended March 31, 2018 and 2017. In accordance with this adoption, the net periodic benefit cost, which consists of interest costs and expected return on plan assets, is disclosed on a separate line below income from operations in the Condensed Consolidated Statements of Operations.

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 March 31,	
	2018	2017
Weighted average shares outstanding - basic	46,075	44,200
Dilutive effect of equity incentive plan instruments	1,610	1,219
Weighted average shares outstanding - diluted	47,685	45,419

Stock options and restricted stock units to acquire a weighted average of 76,000 shares and 550,000 shares for the three months ended March 31, 2018 and 2017, respectively, of Class A common stock were excluded from the computation of diluted earnings per share, because their impact would have been anti-dilutive.

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

New Accounting Standards Adopted

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606) and all related amendments. The Company adopted this standard effective January 1, 2018 using the modified retrospective method as applied to customer contracts that were not completed as of January 1, 2018. Upon adoption of this standard, the cumulative adjustment to the Company's retained earnings as of January 1, 2018 for the cumulative effect of initially applying the new standard is not material. See Revenue Recognition above for the Company's updated accounting policy and Note 9 for expanded disclosures.

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. The Company has applied the change in accounting as of January 1, 2018 on a retrospective basis. This adoption impacted Nexstar's previous financing activity classification of payments for contingent consideration related to an acquisition of $5.0 million in the Condensed Consolidated Statement of Cash Flows during the three months ended March 31, 2017. The payment was not made soon after the consummation of a business combination and includes $4.0 million more than the acquisition date fair value of the contingent consideration liability. Under ASU 2016-15, this portion of the transaction should be classified as an operating activity in the Condensed Consolidated Statement of Cash Flows. As such, the amount previously reported as net cash used in operating activities was increased by $4.0 million and the amount previously reported as net cash used in financing activities were decreased by $4.0 million.

In November 2016, the FASB issued ASU No. 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash, a consensus of the FASB Emerging Issues Task Force (ASU 2016-18), which provides guidance on the presentation of restricted cash or restricted cash equivalents in the statement of cash flows. ASU 2016-18 is effective for public business entities in fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company has applied the change in accounting as of January 1, 2018 on a retrospective basis. This adoption impacted the release of a restricted escrow deposit into Nexstar's operating cash during the three months ended March 31, 2017. In July 2016, Nexstar issued its $900 million 5.625% Senior Unsecured Notes (the "5.625% Notes") at par, the gross proceeds of which were directly deposited into a restricted escrow account. Interest on these notes is payable semiannually but Nexstar was required to pre-fund interest on such notes monthly from July 2016 to December 2016, all of which was also deposited in the restricted escrow account. As of December 31, 2016, the restricted escrow account had a balance of $927.8 million. In January 2017, Nexstar completed its merger with Media General, Inc. ("Media General"). As a result, the funds previously deposited in the restricted escrow account, including the pre-funded interests, were released to Nexstar's operating cash. On February 1, 2017, Nexstar paid the first interest due to the lenders of the 5.625% Notes of $25.9 million. During the three months ended March 31, 2017, Nexstar previously classified the effects of these transactions in its Condensed Consolidated Statement of Cash Flows as follows: (i) $21.6 million source of cash from operating activities, under change in prepaid expenses and other current assets line item, (ii) $5.1 million source of cash from investing activities, (iii) $900.0 million source of cash from financing activities, under proceeds from long-term debt line item, (iv) $1.1 million source of cash from operating activities under change in other noncurrent assets line item, and (v) no cash flow reported in 2017 for the payment of

interest on the 5.625% Notes as the cash flow impact was reported in 2016, when the pre-funding was made. Under ASU 2016-18, transfers between cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents are not part of an entity's operating, investing, and financing activities, and details of those transfers are not reported as cash flow activities in the statement of cash flows. As such, the previous classification in the Condensed Consolidated Statement of Cash Flows related to these transactions was reversed, resulting in an increase in net cash used in operating activities of $22.7 million, an increase in net cash used in investing activities of $5.1 million and a decrease in net cash provided by financing activities of $900.0 million during the three months ended March 31, 2017. Additionally, the cash, cash equivalents and restricted cash at the beginning of the period in 2017 increased by $927.8 million and the supplemental cash flow information for interest paid increased by $25.9 million in 2017.

In January 2017, the FASB issued ASU No. 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business (ASU 2017-01). ASU 2017-01 provides clarification on the definition of a business and adds guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. To be considered a business under the new guidance, it must include an input and a substantive process that together significantly contribute to the ability to create output. The amendment removes the evaluation of whether a market participant could replace missing elements. The amendments in this update are effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years, and will be applied prospectively. The Company has applied the change in accounting as of January 1, 2018. The adoption of this ASU did not impact the Company's Consolidated Financial Statements.

In March 2017, the FASB issued ASU No. 2017-07, Compensation—Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost (ASU 2017-07). ASU 2017-07 requires entities to (1) disaggregate the current-service-cost component from the other components and present it with other current compensation costs for related employees in the income statement and (2) present the other components elsewhere in the income statement and outside of income from operations if that subtotal is presented. In addition, ASU 2017-07 requires entities to disclose the income statement lines that contain the other components if they are not presented on appropriately described separate lines. The amendment should be applied retrospectively for the presentation of the service cost component and prospectively for the capitalization of the service cost component. ASU 2017-07 is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company has applied the change in accounting as of January 1, 2018. Accordingly, net periodic benefit, net of service costs, of $2.8 million for the three months ended March 31, 2017 were adjusted out of selling, general, and administrative expenses and separately stated below income from operations.

In May 2017, the FASB issued ASU No. 2017-09, Compensation—Stock Compensation (Topic 718) – Scope of Modification Accounting (ASU 2017-09). ASU 2017-09 clarifies when changes to the terms or conditions of a share-based payment award must be accounted for as modifications. The new guidance will reduce diversity in practice and result in fewer changes to the terms of an award being accounted for as modifications. Under ASU 2017-09, an entity will not apply modification accounting to a share-based payment award if the award's fair value, vesting conditions and classification as an equity or liability instrument are the same immediately before and after the change. ASU 2017-09 will be applied prospectively to awards modified on or after the adoption date. ASU 2017-09 is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company has applied the change in accounting as of January 1, 2018. The adoption of this ASU did not impact the Company's Consolidated Financial Statements.

In February 2018, the FASB issued ASU No. 2018-02, Reporting Comprehensive Income: Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. ASU 2018-02 provides the option to reclassify stranded tax effects related to the U.S. Tax Cuts and Jobs Act of 2017 in accumulated other comprehensive income to retained earnings. The adjustment relates to the change in the U.S. corporate income tax rate. The adoption of this ASU did not impact the Company's Consolidated Financial Statements.

New Accounting Standards Not Yet Adopted

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. In January 2018, the FASB issued ASU No. 2018-01 to address the accounting treatment of land easements within the context of ASU No. 2016-02, Leases (Topic 842). ASU 2018-01 provides an optional transition practical expedient to not evaluate under Topic 842 existing or expired land easements that were not previously accounted for as leases under the current leases guidance in Topic 840. 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 June 2016, the FASB issued ASU No. 2016-13, “Financial Instruments - Credit Losses (Topic 326).” The standard requires entities to estimate loss of financial assets measured at amortized cost, including trade receivables, debt securities and loans, using an expected credit loss model. The expected credit loss differs from the previous incurred losses model primarily in that the loss recognition threshold of “probable” has been eliminated and that expected loss should consider reasonable and supportable forecasts in addition to the previously considered past events and current conditions. Additionally, the guidance requires additional disclosures related to the further disaggregation of information related to the credit quality of financial assets by year of the asset’s origination for as many as five years. Entities must apply the standard provision as a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective. The standard is effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. Early adoption is permitted for annual periods beginning after December 15, 2018, and interim periods within those fiscal years. The Company is currently evaluating the impact of adopting ASU 2016-13 on its consolidated financial statements.

3. Acquisitions

On January 16, 2018, Nexstar Digital LLC ("Nexstar Digital"), a wholly-owned subsidiary of Nexstar, acquired the outstanding equity of LKQD, a video advertising infrastructure company, for $96.9 million. In January 2018, $94.0 million of the purchase price was paid, funded by a combination of borrowing under the revolving credit facility portion of Nexstar's senior secured credit facility (Note 7) and cash on hand. The remaining $2.9 million (working capital adjustment) is included in accrued expenses in the accompanying Condensed Consolidated Balance Sheet as of March 31, 2018. On April 27, 2018, Nexstar Digital paid the remaining amount of $2.9 million to the former owners.

The sellers are also entitled to receive up to $35.0 million in additional cash payments if a certain earnings target is achieved during the fiscal year 2019 and if certain employees have continued their employment with Nexstar Digital on the date of payment (the "Earnout Payments"). The Earnout Payments are considered compensation to employees for their services and will be incurred from the acquisition date through December 31, 2019. As of March 31, 2018, Nexstar Digital accrued $0.6 million, representing the portion of the estimated fair value of the Earnout Payments that is incurred. The estimated fair value of the Earnout Payments was determined by applying a weighted probability of potential outcomes to the maximum possible payout of $35.0 million. The calculation of these potential outcomes is dependent on past financial performance, management assumptions about future performance and industry trends and any changes to these assumptions could impact the final settlement. This fair value measurement is considered Level 3 as significant inputs are unobservable to the market.

The acquisition of LKQD broadens and diversifies Nexstar Digital's portfolio with technologies that are complementary to its current offerings of digital solutions and services for media publishers, and multi-platform marketing solutions for local and national advertisers. Transaction costs relating to this acquisition, including legal and professional fees of $0.4 million, were expensed as incurred during the three months ended March 31, 2018.

Subject to final determination, which is expected to occur within 12 months of the acquisition date, the provisional fair values of the assets acquired and liabilities assumed in the acquisition are as follows (in thousands):

Cash and cash equivalents	$11,166
Accounts receivable	25,956
Property and equipment	210
Other intangible assets	45,321
Goodwill	41,152
Total assets acquired and consolidated	123,805
Less: Accounts payable and accrued expenses	(18,815)
Less: Taxes payable	(1,255)
Less: Deferred tax liabilities	(6,828)
Net assets acquired and consolidated	$96,907

The fair value assigned to goodwill is attributable to future expense reductions utilizing management's leverage in operating costs. The goodwill and other intangible assets are not deductible for tax purposes. Other intangible assets are amortized over an estimated weighted average useful life of approximately three years.

LKQD’s net revenue of $7.0 million and operating income of $2.4 million from the date of acquisition to March 31, 2018 have been included in the accompanying Condensed Consolidated Statements of Operations.

4. Intangible Assets and Goodwill

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

	Estimated useful life, in years	March 31, 2018			December 31, 2017		
		Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
Network affiliation agreements	15	$1,971,170	$(490,375)	$1,480,795	$1,971,170	$(461,345)	$1,509,825
Other definite-lived intangible assets	1-20	$240,382	$(128,560)	111,822	193,089	(121,288)	71,801
Other intangible assets		$2,211,552	$(618,935)	$1,592,617	$2,164,259	$(582,633)	$1,581,626

The increase in other definite-lived intangible assets pertains to the acquisition of LKQD (See Note 3).

The following table presents the Company's estimate of amortization expense for the remainder of 2018, each of the five succeeding years ended December 31 and thereafter for definite-lived intangible assets as of March 31, 2018 (in thousands):