

NEXSTAR BROADCASTING GROUP INC  
Form 10-Q  
November 07, 2014  
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, 2014

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission File Number: 000-50478

NEXSTAR BROADCASTING GROUP, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware  
(State of Incorporation or Organization)

23-3083125  
(I.R.S. Employer Identification No.)

545 E. John Carpenter Freeway, Suite 700, Irving, Texas  
(Address of Principal Executive Offices)

75062  
(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):

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Large accelerated filer  Accelerated filer

Non-accelerated filer  Smaller reporting company

(Do not check if a smaller reporting company)

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

As of November 3, 2014, the registrant had 30,889,901 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<br>30,<br>2014 | December<br>31,<br>2013 |
|---|--------------------------|-------------------------|
| <b>ASSETS</b>   |                          |                         |
| Current assets:   |                          |                         |
| Cash and cash equivalents   | \$68,676                 | \$40,028                |
| Accounts receivable, net of allowance for doubtful accounts of \$2,723 and \$3,035,<br>respectively | 109,017                  | 109,430                 |
| Deferred tax assets, net  | 38,585                   | 38,585                  |
| Prepaid expenses and other current assets   | 13,847                   | 13,123                  |
| Total current assets  | 230,125                  | 201,166                 |
| Property and equipment, net   | 215,594                  | 212,259                 |
| Goodwill  | 214,453                  | 198,052                 |
| FCC licenses  | 253,407                  | 222,757                 |
| FCC licenses of consolidated variable interest entities   | 43,102                   | 66,263                  |
| Other intangible assets, net  | 170,567                  | 162,721                 |
| Deferred tax assets, net  | 12,501                   | 30,898                  |
| Other noncurrent assets, net  | 80,342                   | 69,606                  |
| Total assets  | \$1,220,091              | \$1,163,722             |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)</b>   |                          |                         |
| Current liabilities:  |                          |                         |
| Current portion of debt   | \$7,460                  | \$6,857                 |
| Accounts payable  | 10,010                   | 10,250                  |
| Accrued expenses  | 28,731                   | 24,142                  |
| Interest payable  | 13,939                   | 4,661                   |
| Amounts payable to sellers for acquisition of stations  | -                        | 22,000                  |
| Other current liabilities of consolidated variable interest entities                                | 5,848                    | 4,923                   |
| Other current liabilities   | 16,357                   | 11,089                  |
| Total current liabilities   | 82,345                   | 83,922                  |
| Debt  | 1,079,980                | 1,064,262               |
| Other noncurrent liabilities of consolidated variable interest entities                             | 8,923                    | 8,080                   |
| Other noncurrent liabilities  | 26,644                   | 20,689                  |
| Total liabilities   | 1,197,892                | 1,176,953               |
| Commitments and contingencies   |                          |                         |
| Stockholders' equity (deficit):   |                          |                         |
| Preferred stock - \$0.01 par value, 200,000 shares authorized; none issued and outstanding          | -                        | -                       |

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at each of September 30, 2014 and December 31, 2013

|   |             |             |
|---|-------------|-------------|
| Class A Common stock - \$0.01 par value, 100,000,000 shares authorized; 30,889,901 and<br>30,598,535 shares issued and outstanding at September 30, 2014 and December 31, 2013,<br>respectively | 309         | 306         |
| Class B Common stock - \$0.01 par value, 20,000,000 shares authorized; none issued and<br>outstanding at each of September 30, 2014 and December 31, 2013                                       | -           | -           |
| Class C Common stock - \$0.01 par value, 5,000,000 shares authorized; none issued and<br>outstanding at each of September 30, 2014 and December 31, 2013  | -           | -           |
| Additional paid-in capital  | 394,543     | 396,817     |
| Accumulated deficit   | (376,653 )  | (410,354 )  |
| Total Nexstar Broadcasting Group, Inc. stockholders' equity (deficit)   | 18,199      | (13,231 )   |
| Noncontrolling interest in a consolidated variable interest entity  | 4,000       | -           |
| Total stockholders' equity (deficit)  | 22,199      | (13,231 )   |
| Total liabilities and stockholders' equity (deficit)  | \$1,220,091 | \$1,163,722 |

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

## NEXSTAR BROADCASTING GROUP, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share information, unaudited)

|   | Three Months Ended    |            | Nine Months Ended     |            |
|---|-----------------------|------------|-----------------------|------------|
|   | September 30,<br>2014 | 2013       | September 30,<br>2014 | 2013       |
| Net revenue   | \$ 157,744            | \$ 125,792 | \$ 438,507            | \$ 364,208 |
| Operating expenses:   |                       |            |                       |            |
| Direct operating expenses, excluding depreciation and amortization                        | 48,395                | 37,270     | 135,501               | 107,835    |
| Selling, general, and administrative expenses, excluding depreciation<br>and amortization | 43,652                | 37,587     | 128,488               | 110,652    |
| Amortization of broadcast rights  | 8,771                 | 9,188      | 25,683                | 26,867     |
| Amortization of intangible assets   | 6,392                 | 7,996      | 18,697                | 22,900     |
| Depreciation  | 8,838                 | 8,598      | 25,800                | 24,791     |
| Total operating expenses  | 116,048               | 100,639    | 334,169               | 293,045    |
| Income from operations  | 41,696                | 25,153     | 104,338               | 71,163     |
| Interest expense, net   | (15,530 )             | (16,900 )  | (46,039 )             | (50,352 )  |
| Loss on extinguishment of debt  | -                     | (1,048 )   | (71 )                 | (1,048 )   |
| Other expenses  | (172 )                | (84 )      | (427 )                | (252 )     |
| Income before income taxes  | 25,994                | 7,121      | 57,801                | 19,511     |
| Income tax expense  | (10,590 )             | (3,526 )   | (24,100 )             | (8,844 )   |
| Net income  | \$ 15,404             | \$ 3,595   | \$ 33,701             | \$ 10,667  |
| Net income per common share:  |                       |            |                       |            |
| Basic   | \$0.50                | \$0.12     | \$1.10                | \$0.36     |
| Diluted   | \$0.48                | \$0.11     | \$1.05                | \$0.34     |
| Weighted average number of common shares outstanding:                                     |                       |            |                       |            |
| Basic   | 30,888                | 30,048     | 30,711                | 29,706     |
| Diluted   | 32,067                | 31,509     | 31,970                | 31,297     |
| Dividends declared per common share   | \$0.15                | \$0.12     | \$0.45                | \$0.36     |

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

## NEXSTAR BROADCASTING GROUP, INC.

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIT)

For the Nine Months Ended September 30, 2014

(in thousands, except share information, unaudited)

|  | Preferred Stock |        | Common Stock   |        |                |        | Additional Paid-In Capital |        |            | Accumulated Deficit | Noncontrolling interest in a consolidated variable interest entity | Total Stockholders' Equity (Deficit) |
|--|-----------------|--------|----------------|--------|----------------|--------|----------------------------|--------|------------|---------------------|--|--------------------------------------|
|  | Shares          | Amount | Class A Shares | Amount | Class B Shares | Amount | Class C Shares             | Amount | Capital    |                     |  |                                      |
|  |                 |        |                |        |                |        |                            |        |            |                     |  |                                      |
| Balances as of December 31, 2013               | -               | \$ -   | 30,598,535     | \$ 306 | -              | \$ -   | -                          | \$ -   | \$ 396,817 | \$ (410,354 )       | \$ -   | \$ (13,231 )                         |
| Stock-based compensation expense               | -               | -      | -              | -      | -              | -      | -                          | -      | 5,484      | -                   | -  | 5,484                                |
| Exercise of stock options                      | -               | -      | 291,366        | 3      | -              | -      | -                          | -      | 1,288      | -                   | -  | 1,291                                |
| Excess tax benefit from stock option exercises | -               | -      | -              | -      | -              | -      | -                          | -      | 4,766      | -                   | -  | 4,766                                |
| Common stock dividends declared                | -               | -      | -              | -      | -              | -      | -                          | -      | (13,812 )  | -                   | -  | (13,812 )                            |
| Consolidation of a variable interest entity    | -               | -      | -              | -      | -              | -      | -                          | -      | -          | -                   | 4,000  | 4,000                                |
| Net income                                     | -               | -      | -              | -      | -              | -      | -                          | -      | -          | 33,701              | -  | 33,701                               |
| Balances as of September 30, 2014              | -               | \$ -   | 30,889,901     | \$ 309 | -              | \$ -   | -                          | \$ -   | \$ 394,543 | \$ (376,653 )       | \$ 4,000   | \$ 22,199                            |

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<br>September 30, |           |
|---|------------------------------------|-----------|
|   | 2014                               | 2013      |
| Cash flows from operating activities:   |                                    |           |
| Net income  | \$33,701                           | \$10,667  |
| Adjustments to reconcile net income to net cash provided by operating activities: |                                    |           |
| Provision for bad debts   | 1,759                              | 1,320     |
| Amortization of broadcast rights, excluding barter                                | 8,904                              | 9,545     |
| Depreciation of property and equipment  | 25,800                             | 24,791    |
| Amortization of intangible assets   | 18,697                             | 22,900    |
| Loss on asset disposal, net   | 139                                | 35        |
| Amortization of debt financing costs  | 1,914                              | 1,582     |
| Amortization of debt discount (premium), net                                      | 119                                | 1,001     |
| Loss on extinguishment of debt  | 71                                 | 1,048     |
| Stock-based compensation expense  | 5,484                              | 1,580     |
| Deferred income taxes   | 21,371                             | 9,103     |
| Payments for broadcast rights   | (9,108 )                           | (11,031 ) |
| Deferred gain recognition   | (327 )                             | (327 )    |
| Amortization of deferred representation fee incentive                             | (625 )                             | (615 )    |
| Non-cash representation contract termination fee                                  | 353                                | -         |
| Issue discount paid upon debt extinguishment                                      | -                                  | (262 )    |
| Premium on debt extinguishment  | -                                  | (853 )    |
| Excess tax benefit from stock option exercises                                    | (4,766 )                           | (9,786 )  |
| Changes in operating assets and liabilities, net of acquisitions:                 |                                    |           |
| Accounts receivable   | 1,326                              | (28,409 ) |
| Prepaid expenses and other current assets   | 475                                | (2,969 )  |
| Other noncurrent assets   | 261                                | 43        |
| Accounts payable and accrued expenses   | 4,952                              | 3,762     |
| Interest payable  | 9,278                              | 10,776    |
| Other liabilities of consolidated variable interest entities                      | 900                                | 584       |
| Other noncurrent liabilities  | (36 )                              | (539 )    |
| Net cash provided by operating activities   | 120,642                            | 43,946    |
| Cash flows from investing activities:   |                                    |           |
| Purchases of property and equipment   | (13,904 )                          | (14,400 ) |
| Deposits and payments for acquisitions, net of cash acquired                      | (85,298 )                          | (220,830) |
| Proceeds from disposals of property and equipment                                 | 82                                 | 51        |
| Net cash used in investing activities   | (99,120 )                          | (235,179) |
| Cash flows from financing activities:   |                                    |           |
| Repayments of long-term debt  | (8,743 )                           | (70,913 ) |
| Payments for debt financing costs   | (357 )                             | (2,218 )  |
| Proceeds from long-term debt  | 24,938                             | 223,875   |
| Purchase of treasury stock  | -                                  | (8,422 )  |
| Proceeds from exercise of stock options   | 1,291                              | 6,162     |

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|  |           |           |
|--|-----------|-----------|
| Excess tax benefit from stock option exercises         | 4,766     | 9,786     |
| Common stock dividends paid                            | (13,812 ) | (10,654 ) |
| Payments for capital lease obligations                 | (957 )    | (763 )    |
| Net cash provided by financing activities              | 7,126     | 146,853   |
| Net increase (decrease) in cash and cash equivalents   | 28,648    | (44,380 ) |
| Cash and cash equivalents at beginning of period       | 40,028    | 68,999    |
| Cash and cash equivalents at end of period             | \$68,676  | \$24,619  |
| Supplemental information:                              |           |           |
| Interest paid  | \$34,728  | \$36,901  |
| Income taxes paid, net of refunds                      | \$2,276   | \$2,143   |
| Non-cash investing and financing activities:           |           |           |
| Accrued purchases of property and equipment            | \$2,008   | \$2,057   |
| Noncash purchases of property and equipment            | \$1,332   | \$2,689   |
| Accrued debt financing costs                           | \$-       | \$849     |
| Amounts payable to sellers for acquisition of stations | \$-       | \$22,000  |

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, 2014, Nexstar Broadcasting Group, Inc. and its wholly-owned subsidiaries (“Nexstar”) owned, operated, programmed or provided sales and other services to 80 television stations and 21 digital multicast channels, including those owned by Mission Broadcasting, Inc. (“Mission”), in 46 markets in the states of Illinois, Indiana, Maryland, Missouri, Montana, Tennessee, Texas, Pennsylvania, Louisiana, Arkansas, Alabama, New York, Florida, Wisconsin, Michigan, Utah, Vermont, California, Iowa and Colorado. The stations are affiliates of ABC (20 stations), NBC (16 stations), FOX (14 stations), CBS (16 stations), The CW (6 stations and 2 digital multicast channels), MyNetworkTV (7 stations and 2 digital multicast channels), Telemundo (one station and one digital multicast channel), Bounce TV (9 digital multicast channels), Me-TV (3 digital multicast channels), LiveWell (2 digital multicast channels), LATV (one digital multicast channel) and Weather Nation Utah (one digital multicast channel). Through various local service agreements, Nexstar provided sales, programming and other services to 22 stations and 2 digital multicast channels owned and/or operated by independent third parties. Nexstar operates in one reportable television broadcasting segment. The economic characteristics, services, production process, customer type and distribution methods for Nexstar’s operations are substantially similar and are therefore aggregated as a single reportable segment.

2. Summary of Significant Accounting Policies

Principles of Consolidation

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

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

Liquidity

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

Interim Financial Statements

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

## Mission

Mission is included in these Consolidated Financial Statements because Nexstar is deemed under U.S. GAAP to have a controlling financial interest in Mission as a VIE for financial reporting purposes as a result of (1) local service agreements Nexstar has with the Mission stations, (2) Nexstar's guarantee of the obligations incurred under Mission's senior secured credit facility (see Note 6), (3) Nexstar having power over significant activities affecting Mission's economic performance, including budgeting for advertising revenue, advertising sales and hiring and firing of sales force personnel and (4) purchase options granted by Mission which permit Nexstar to acquire the assets and assume the liabilities of each Mission station, subject to Federal Communications Commission ("FCC") consent. The purchase options are freely exercisable or assignable by Nexstar without consent or approval by Mission for consideration equal to the greater of (1) seven times the station's cash flow, as defined in the option agreement, less the amount of its indebtedness, as defined in the option agreement, or (2) the amount of its indebtedness. Additionally, Nexstar has an option to purchase any or all of Mission's stock, subject to FCC consent, for a price equal to the pro rata portion of the greater of (1) five times the stations' cash flow, as defined in the agreement, reduced by the amount of indebtedness, as defined in the agreement, or (2) \$100,000. These option agreements (which expire on various dates between 2014 and 2024) are freely exercisable or assignable by Nexstar without consent or approval by Mission or its shareholders. The Company expects these option agreements to be renewed upon expiration. As of September 30, 2014, the assets of Mission consisted of current assets of \$18.7 million (excluding broadcast rights and amounts due from Nexstar), broadcast rights of \$4.0 million, FCC licenses of \$41.6 million, goodwill of \$32.5 million, other intangible assets of \$21.9 million, property and equipment of \$24.8 million, noncurrent deferred tax assets of \$19.4 million and other noncurrent assets of \$6.9 million. Substantially all of Mission's assets, except for its FCC licenses, collateralize its secured debt obligation. See Note 9 for a presentation of condensed consolidating financial information of the Company, which includes the accounts of Mission.

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

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

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

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

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

Mission, Mission maintains complete responsibility for and control over programming, finances, personnel and operations of its stations.

#### Variable Interest Entities

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

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

As of September 30, 2014, the assets of KFQX consisted of FCC licenses of \$1.5 million, goodwill of \$0.7 million and other intangible assets of \$1.7 million. The consolidation of the assets and liabilities of the station into Nexstar resulted in a noncontrolling interest of \$4.0 million, representing the interest held by the owners of KFQX as of June 13, 2014. See Note 3 for additional information. During the period June 13, 2014 to September 30, 2014, the station had no significant revenue or operating results.

Nexstar has also determined that it has a variable interest in WYZZ, the FOX affiliate in Peoria, Illinois owned by Cunningham Broadcasting Corporation (“Cunningham”). Nexstar has evaluated its arrangement with Cunningham and has determined that it is not the primary beneficiary of the variable interest because it does not have the ultimate power to direct the activities that most significantly impact the economic performance of the station, including developing the annual operating budget, programming and oversight and control of sales management personnel. Therefore, Nexstar has not consolidated this station. Under the outsourcing agreement with Cunningham, Nexstar pays for certain operating expenses of WYZZ, and therefore may have unlimited exposure to any potential operating losses. Nexstar’s management believes that Nexstar’s minimum exposure to loss under the Cunningham outsourcing agreement consists of the fees paid to Cunningham. Additionally, Nexstar indemnifies the owners of WYZZ from and against all liability and claims arising out of or resulting from its activities, acts or omissions in connection with the agreement. The maximum potential amount of future payments Nexstar could be required to make for such indemnification is undeterminable at this time. In 2013, WYZZ was owned by Sinclair Broadcast Group, Inc. (“Sinclair”) and sold to Cunningham in November 2013. In addition, Nexstar had another variable interest in WUHF in Rochester, New York, also owned by Sinclair, which terminated on December 31, 2013. Under the outsourcing agreements, Nexstar made payments to Cunningham of \$0.3 million and \$0.9 million for the three and nine months ended September 30, 2014, respectively, and to Sinclair of \$1.1 million and \$3.5 million for the three and nine months ended September 30, 2013, respectively. Nexstar had a balance due to Cunningham and Sinclair for fees under these arrangements in the amount of \$0.3 million and \$1.8 million as of September 30, 2014 and December 31, 2013, respectively, and had receivables for advertising aired on these stations in the amount of \$0.7 million and \$2.5 million, respectively.

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

#### Financial Instruments

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

#### Income Per Share

Basic income per share is computed by dividing the net income by the weighted-average number of common shares outstanding during the period. Diluted income per share is computed using the weighted-average number of common shares and potentially dilutive common shares outstanding during the period. Potentially dilutive common shares are calculated using the treasury stock method. They consist of stock options 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<br>Ended<br>September 30, |        | Nine Months<br>Ended<br>September 30, |        |
|--|--|--------|---------------------------------------|--------|
|  | 2014                                   | 2013   | 2014                                  | 2013   |
| Weighted average shares outstanding - basic          | 30,888                                 | 30,048 | 30,711                                | 29,706 |
| Dilutive effect of equity incentive plan instruments | 1,179                                  | 1,461  | 1,259                                 | 1,591  |
| Weighted average shares outstanding - diluted        | 32,067                                 | 31,509 | 31,970                                | 31,297 |

Stock options and restricted stock units to acquire a weighted average of 753,000 shares and 712,000 shares of Class A common stock were excluded from the computation of diluted earnings per share for the three and nine months ended September 30, 2014, respectively, because their impact would have been antidilutive. No stock options and restricted stock units were excluded from the computation of dilutive earnings per share for the three and nine months ended September 30, 2013.



## Basis of Presentation

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

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

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

## Recent Accounting Pronouncements

In August 2014, the FASB issued ASU No. 2014-15, Presentation of Financial Statements Going Concern (Subtopic 205-40) – Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern. ASU 2014-15 places responsibility on management to evaluate whether there is substantial doubt about the entity's ability to continue as a going concern. The standard is intended to reduce diversity in the timing and content of footnote disclosures and require management to assess an entity's ability to continue as a going concern by incorporating and expanding upon certain principles that are currently in U.S. auditing standards. Specifically, the amendments (1) provide a definition of the term substantial doubt, (2) require an evaluation every reporting period including interim periods, (3) provide principles for considering the mitigating effect of management's plans, (4) require certain disclosures when substantial doubt is alleviated as a result of consideration of management's plans, (5) require an express statement and other disclosures when substantial doubt is not alleviated, and (6) require an assessment for a period of one year after the date that the financial statements are issued (or available to be issued). The amendments in this accounting standard update are effective for interim and annual periods ending after December 15, 2016. Early application is permitted. The Company does not expect the implementation of this standard to have a material impact on its financial position or results of operations.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606), 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, 2016. Early application is not permitted. The Company is currently evaluating the impact of the provisions of the accounting standard update.

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



## 3. Acquisitions

## Citadel

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

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

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

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

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

The acquired stations' net revenue of \$7.8 million and net income of \$2.3 million during the three months ended September 30, 2014 and net revenue of \$19.5 million and net income of \$3.3 million during the nine months ended September 30, 2014 have been included in the accompanying Condensed Consolidated Statements of Operations.

## Internet Broadcasting Systems

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

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

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

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

IBS’ net revenue of \$5.0 million and net loss of \$0.3 million during the three months ended September 30, 2014 and net revenue of \$10.3 million and net loss of \$1.2 million for the period April 1, 2014 to September 30, 2014 have been included in the accompanying Condensed Consolidated Statements of Operations.

## ETG

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

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

|   |       |
|---|-------|
| Cash                                      | \$433 |
| Accounts receivable                       | 210   |
| Prepaid expenses and other current assets | 84    |
| Property and equipment                    | 75    |
| Software and other intangible assets      | 4,329 |
| Goodwill                                  | 4,432 |
| Total assets acquired                     | 9,563 |

|   |         |
|---|---------|
| Less: Accounts payable and accrued expenses | (368 )  |
| Less: Deferred revenue                      | (219 )  |
| Less: Deferred tax liabilities              | (1,792) |
| Net assets acquired                         | \$7,184 |

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

ETG's net revenue of \$1.2 million and net income of \$0.1 million during the three months ended September 30, 2014 and net revenue of \$1.7 million and insignificant operating results for the period May 15, 2014 to September 30, 2014 have been included in the accompanying Condensed Consolidated Statements of Operations.

## Gray TV

Effective June 13, 2014, Nexstar completed the acquisition of the outstanding equity of WMBB, the ABC affiliate in the Panama City, Florida market, KREX/KREG/KREY, the CBS affiliates and KGJT, the MyNetworkTV affiliate, all in the Grand Junction, Colorado market, from Gray Television Group, Inc. (“Gray TV”) for \$34.5 million in cash, funded by a combination of proceeds from borrowings under Nexstar’s Term Loan A Facility (See Note 6) and cash on hand. Both KREG and KREY operate as satellite stations of KREX. This acquisition allows Nexstar entrance into 2 new markets. During the nine months ended September 30, 2014, transaction costs relating to this acquisition, including legal and professional fees of \$0.1 million, were expensed as incurred.

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

|   |          |
|---|----------|
| Accounts receivable                         | \$ 1,831 |
| Broadcast rights                            | 98       |
| Prepaid expenses and other current assets   | 75       |
| Property and equipment                      | 12,513   |
| FCC licenses                                | 5,950    |
| Network affiliation agreements              | 7,719    |
| Other intangible assets                     | 1,878    |
| Goodwill                                    | 4,895    |
| Total assets acquired                       | 34,959   |
| Less: Broadcast rights payable              | (98 )    |
| Less: Accounts payable and accrued expenses | (361 )   |
| Net assets acquired                         | \$34,500 |

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 1.5 years.

The acquired stations’ net revenue of \$4.1 million and net income of \$1.4 million during the three months ended September 30, 2014 and net revenue of \$4.6 million and net income of \$1.5 million for the period June 13, 2014 to September 30, 2014 have been included in the accompanying Condensed Consolidated Statements of Operations.

On December 18, 2013, Mission entered into a definitive agreement with Excalibur Broadcasting, LLC (“Excalibur”) to acquire KFQX, the FOX affiliate in the Grand Junction, Colorado market. The acquisition will allow Mission entrance into this market. The FCC has not granted consent to Mission’s acquisition of KFQX from Excalibur. On May 27, 2014, Mission and Excalibur terminated their purchase agreement and Mission assumed Excalibur’s rights, title and interest in an existing purchase agreement with Parker Broadcasting, Inc. (“Parker”) to acquire KFQX for \$4.0 million in cash, subject to adjustments for working capital. In connection with this restructuring, Mission paid Parker a deposit of \$3.2 million on June 13, 2014. The acquisition is subject to FCC approval and other customary conditions and Mission is expecting it to close in the first quarter of 2015. Mission expects to fund the remaining purchase price through cash generated from operations prior to closing. No significant transaction costs were incurred in connection with this acquisition during the three and nine months ended September 30, 2014.

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

|   |         |
|---|---------|
| FCC licenses of a consolidated VIE          | \$1,539 |
| Network affiliation agreements              | 1,744   |
| Other intangible assets                     | 20      |
| Goodwill                                    | 697     |
| Total assets of a consolidated VIE          | 4,000   |
| Less: Accounts payable and accrued expenses | (13 )   |
| Net assets of a consolidated VIE            | \$3,987 |

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



## Pending Acquisitions

## CCA

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

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

On June 4, 2014, Mission entered into an assignment and assumption agreement with Marshall Broadcasting Group, Inc. (“Marshall”) pursuant to which Mission assigned its rights and obligations under purchase agreements with Nexstar to Marshall with respect to television stations KPEJ, the FOX affiliate serving the Odessa-Midland market, and KMSS, the FOX affiliate serving the Shreveport market, which currently are owned by CCA, for \$ 43.3 million, subject to FCC consent. Upon consummation of the transaction, Marshall will enter into local service agreements with Nexstar.

On July 29, 2014, Nexstar entered into a purchase agreement with Bayou City Broadcasting Evansville, Inc. (“BCB”) pursuant to which Nexstar will, simultaneous with the CCA closing, sell CCA television station WEVV, the CBS and FOX affiliate serving the Evansville market, to BCB, for \$26.9 million, subject to FCC consent. There will be no relationship between Nexstar and BCB or their respective stations upon BCB’s purchase of WEVV.

Upon consummation of the above transactions, Nexstar will acquire 10 television stations, Marshall will acquire two television stations and White Knight will continue to own its television stations. Nexstar and Marshall will enter into local service agreements for KPEJ and KMSS and Nexstar will assume CCA’s rights and obligations under CCA’s local service agreements with White Knight. These transactions will allow the Company entrance into 7 new markets and create duopolies in 6 markets. The stations impacted are as follows:

| Market                                    | Market Rank | Station | Affiliation               |
|---|-------------|---------|---------------------------|
| Nexstar:                                  |             |         |                           |
| Harlingen-Weslaco-Brownsville-McAllen, TX | 86          | KVEO    | NBC/Estrella              |
| Waco-Temple-Bryan, TX                     | 88          | KWKT    | FOX/MyNetworkTV/ Estrella |
|   |             | KYLE    | FOX/MyNetworkTV/ Estrella |
| El Paso, TX                               | 91          | KTSM    | NBC/Estrella              |
| Baton Rouge, LA                           | 94          | WGMB    | FOX                       |
|   |             | WBRL-CD | The CW                    |
| Tyler-Longview, TX                        | 107         | KETK    | NBC/Estrella              |
| Lafayette, LA                             | 124         | KADN    | FOX                       |

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|                    |     |                 |                                |
|--------------------|-----|-----------------|--------------------------------|
| Alexandria, LA     | 179 | KLAF-LD<br>WNTZ | MyNetworkTV<br>FOX/MyNetworkTV |
| Marshall:          |     |                 |                                |
| Shreveport, LA     | 83  | KMSS            | FOX                            |
| Odessa-Midland, TX | 152 | KPEJ            | FOX/Estrella                   |
| White Knight:      |     |                 |                                |
| Baton Rouge, LA    | 94  | WVLA            | NBC                            |
|                    |     | KZUP-CD         | RTV                            |
| Tyler-Longview, TX | 107 | KFXK            | FOX                            |
|                    |     | KFXL-LD         | FOX                            |
|                    |     | KLPN-LD         | MyNetworkTV                    |
| Shreveport, LA     | 83  | KSHV            | MyNetworkTV                    |

A deposit of \$27.0 million was paid to CCA in April 2013 upon signing the agreement, funded by a combination of borrowings under Nexstar's revolving credit facility and cash on hand. The remaining purchase price is expected to be funded through cash generated from operations prior to closing and borrowings under Nexstar's existing credit facilities. Marshall will fund the payment of purchase price to Nexstar through future credit transactions which Nexstar has agreed to guarantee. BCB will fund its acquisition of WEVV separately and make a payment to Nexstar in the amount of the purchase price. The acquisitions are subject to FCC approval, Department of Justice ("DOJ") approval and other customary conditions and Nexstar expects them to close in the fourth quarter of 2014. During the three and nine months ended September 30, 2014, transaction costs relating to these acquisitions, including legal fees of \$0.1 million and \$0.2 million, respectively, were expensed as incurred.

#### Stainless

On September 13, 2013, Mission entered into a definitive agreement to acquire WICZ, the FOX affiliate, and WBPN-LP, the MyNetworkTV affiliate, both in the Binghamton, New York market, from Stainless Broadcasting, L.P. ("Stainless"). The acquisition will allow Mission entrance into this market. Under the terms of the purchase agreement, Mission will acquire the assets of WICZ and WBPN-LP for \$15.3 million in cash, subject to adjustments for working capital. A deposit of \$0.2 million was paid in September 2013 upon signing the agreement. The remaining purchase price is expected to be funded by Mission through borrowings under its existing credit facility and cash on hand. The acquisition is subject to FCC approval and other customary conditions and Mission expects it to close in the first quarter of 2015. During the nine months ended September 30, 2014, transaction costs relating to this acquisition, including legal and professional fees of \$0.4 million, were expensed as incurred.

#### Grant

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

Due to certain subsequent changes in FCC rules and policies (see Note 7), on June 4, 2014, Mission entered into an assignment and assumption agreement with Marshall pursuant to which Mission assigned its rights and obligations under its purchase agreement with Nexstar to Marshall and Marshall will acquire KLJB for \$15.3 million, subject to FCC consent. Upon consummation of the transaction, Marshall will enter into local service agreements with Nexstar.

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

#### KASW

On October 21, 2014, Nexstar entered into a definitive agreement to acquire the assets of KASW, the CW affiliate in the Phoenix, Arizona market from Meredith Corporation (“Meredith”) and SagamoreHill of Phoenix, LLC (“SagamoreHill”) for \$68.0 million, subject to adjustments for working capital. Refer to Note 10 for additional information.

#### KCWI

On October 24, 2014, Nexstar entered into a definitive agreement to acquire the assets of KCWI, the CW affiliate in the Des Moines-Ames, Iowa market from Pappas Telecasting of Iowa, LLC (“Pappas”) for \$3.5 million, subject to adjustments for working capital. Refer to Note 10 for additional information.

## Unaudited Pro Forma Information

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

|                                       | Three Months<br>Ended<br>September 30, |         | Nine Months<br>Ended<br>September 30, |         |
|---------------------------------------|--|---------|---------------------------------------|---------|
|                                       | 2014                                   | 2013    | 2014                                  | 2013    |
| Net revenue                           | 157,744                                | 130,854 | 443,957                               | 379,020 |
| Income before income taxes            | 25,990                                 | 6,447   | 57,438                                | 16,872  |
| Net income                            | 15,402                                 | 3,166   | 33,488                                | 8,986   |
| Net income per common share - basic   | 0.50                                   | 0.11    | 1.09                                  | 0.30    |
| Net income per common share - diluted | 0.48                                   | 0.10    | 1.05                                  | 0.29    |

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

## 4. Intangible Assets and Goodwill

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

|                                | Estimated<br>useful<br>life,<br>in years | September 30, 2014 |                             |            | December 31, 2013 |                             |            |
|--------------------------------|--|--------------------|-----------------------------|------------|-------------------|-----------------------------|------------|
|                                |  | Gross              | Accumulated<br>Amortization | Net        | Gross             | Accumulated<br>Amortization | Net        |
| Network affiliation agreements | 15                                       | \$451,274          | \$ (305,447 )               | \$ 145,827 | \$441,811         | \$ (291,154 )               | \$ 150,657 |
| Other definite-lived           |  |                    |                             |            |                   |                             |            |
| intangible assets              | 1-15                                     | 48,952             | (24,212 )                   | 24,740     | 33,642            | (21,578 )                   | 12,064     |
| Other intangible assets        |  | \$500,226          | \$ (329,659 )               | \$ 170,567 | \$475,453         | \$ (312,732 )               | \$ 162,721 |

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

|                   |         |
|-------------------|---------|
| Remainder of 2014 | \$6,534 |
| 2015              | 25,326  |
| 2016              | 18,290  |

|            |           |
|------------|-----------|
| 2017       | 17,399    |
| 2018       | 15,759    |
| 2019       | 12,819    |
| Thereafter | 74,440    |
|            | \$170,567 |

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

|                                     | Goodwill  |                           |           | FCC Licenses |                           |           |
|-------------------------------------|-----------|---------------------------|-----------|--------------|---------------------------|-----------|
|                                     | Gross     | Accumulated<br>Impairment | Net       | Gross        | Accumulated<br>Impairment | Net       |
| Balances as of December 31, 2013    | \$244,043 | \$ (45,991 )              | \$198,052 | \$338,441    | \$ (49,421 )              | \$289,020 |
| Acquisitions (See Note 3):          |           |                           |           |              |                           |           |
| Citadel                             | (19 )     | -                         | (19 )     | -            | -                         | -         |
| IBS                                 | 6,396     | -                         | 6,396     | -            | -                         | -         |
| ETG                                 | 4,432     | -                         | 4,432     | -            | -                         | -         |
| Gray TV                             | 4,895     | -                         | 4,895     | 5,950        | -                         | 5,950     |
| Consolidation of a VIE (See Notes 2 |           |                           |           |              |                           |           |
| and 3)                              | 697       | -                         | 697       | 1,539        | -                         | 1,539     |
| Balances as of September 30, 2014   | \$260,444 | \$ (45,991 )              | \$214,453 | \$345,930    | \$ (49,421 )              | \$296,509 |

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

#### 5. Accrued Expenses

Accrued expenses consisted of the following (in thousands):

|                                | September<br>30,<br>2014 | December<br>31,<br>2013 |
|--------------------------------|--------------------------|-------------------------|
| Compensation and related taxes | \$ 11,224                | \$ 9,744                |
| Sales commissions              | 2,733                    | 2,556                   |
| Employee benefits              | 1,968                    | 1,354                   |
| Property taxes                 | 1,510                    | 649                     |
| Other                          | 11,296                   | 9,839                   |
|                                | \$ 28,731                | \$ 24,142               |

## 6. Debt

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

|  | September<br>30,<br>2014 | December<br>31,<br>2013 |
|--|--------------------------|-------------------------|
| Term loans, net of discount of \$1,432 and \$1,554, respectively                           | \$561,830                | \$545,450               |
| 6.875% Senior unsecured notes due 2020, including premium of \$610 and \$669, respectively | 525,610                  | 525,669                 |
|  | 1,087,440                | 1,071,119               |
| Less: current portion  | (7,460 )                 | (6,857 )                |
|  | \$1,079,980              | \$1,064,262             |

## 2014 Transactions

Through September 2014, Nexstar and Mission paid the contractual maturities under their senior secured credit facilities of \$1.6 million and \$1.3 million, respectively.

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

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

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

On October 31, 2014, Mission re-allocated all of its unused Term Loan A Facility to Nexstar and Nexstar borrowed all of the Company's unused Term Loan A Facilities to partially fund the remaining purchase price due upon closing for the acquisition of television stations from Grant and CCA. See Note 10 for additional information.

## Unused Commitments and Borrowing Availability

Nexstar and Mission had \$105.0 million of total unused revolving loan commitments and \$147.2 million of total unused Term Loan A Facilities under their amended senior secured credit facilities, all of which was available for borrowing, based on the covenant calculations as of September 30, 2014. Nexstar and Mission's ability to access funds under their senior secured credit facilities depends, in part, on their compliance with certain financial covenants. On October 31, 2014, Mission re-allocated all of its unused Term Loan A Facility to Nexstar and Nexstar borrowed all of



the Company's unused Term Loan A Facilities to partially fund the remaining purchase price due upon closing for the acquisition of television stations from Grant and CCA. See Note 10 for additional information.

#### Debt Covenants

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

Collateralization and Guarantees of Debt

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

Fair Value of Debt

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

|  | September 30, 2014 |            | December 31, 2013 |            |
|--|--------------------|------------|-------------------|------------|
|  | Carrying Amount    | Fair Value | Carrying Amount   | Fair Value |
| Term loans <sup>(1)</sup>                    | \$561,830          | \$550,828  | \$545,450         | \$546,818  |
| 6.875% Senior unsecured notes <sup>(2)</sup> | 525,610            | 543,375    | 525,669           | 561,750    |

(1)The fair value of senior secured credit facilities is computed based on borrowing rates currently available to Nexstar and Mission for bank loans with similar terms and average maturities. These fair value measurements are considered Level 3, as significant inputs to the fair value calculation are unobservable in the market.

(2)The fair value of Nexstar’s fixed rate debt is estimated based on bid prices obtained from an investment banking firm that regularly makes a market for these financial instruments. These fair value measurements are considered Level 2, as quoted market prices are available for low volume trading of these securities.

7. FCC Regulatory Matters

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

The FCC has adopted rules with respect to the final conversion of existing low power and television translator stations to digital operations. The FCC initially established a September 1, 2015 deadline by which low power and television translator stations must cease analog operations, but in October 2014, the FCC suspended that deadline pending final FCC action in a recently initiated rulemaking proceeding.

Media Ownership

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

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

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

Concurrently with its adoption of the FNPRM, the FCC also adopted a rule making television JSAs attributable to the seller of advertising time in certain circumstances. Under this rule, where a party owns a full-power television station in a market and sells more than 15% of the weekly advertising time for another, non-owned station in the same market under a JSA, that party will be deemed to have an attributable interest in the latter station for purposes of the local television ownership rule. Parties to newly attributable JSAs that do not comply with the local television ownership rule have until June 19, 2016 to modify or terminate their JSAs to come into compliance. Although the FCC will consider waivers of the new JSA attribution rule, the FCC thus far has provided little guidance on what factors must be present for a waiver to be granted. The Company anticipates requesting a waiver of this new rule before the compliance deadline. In addition, various parties, including Nexstar, have appealed this new rule to the U.S. Court of Appeals for the D.C. Circuit. Mission filed a motion to intervene in this proceeding. If Nexstar is required to amend or terminate its existing agreements with Mission, the Company could have a reduction in revenue and could incur increased costs if it is unable to successfully implement alternative arrangements that are as beneficial as the existing JSAs.

Also in March 2014, the FCC's Media Bureau issued a public notice announcing "processing guidelines" for certain pending and future applications for FCC approval of television acquisitions. The public notice indicates that the FCC will "closely scrutinize" applications which propose a JSA, SSA or local marketing agreement ("LMA") between television stations, combined with an option, a similar "contingent interest," or a loan guarantee. The U.S. Court of Appeals for the D.C. Circuit has dismissed an appeal of the processing guidelines. These new processing guidelines have impacted the Company's pending acquisitions and may affect the Company's acquisition of additional stations in the future.

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

## Spectrum

The FCC has initiated various proceedings to assess the availability of spectrum to meet future wireless broadband needs. The FCC's March 2010 "National Broadband Plan" recommends the reallocation of 120 megahertz of the spectrum currently used for broadcast television for wireless broadband use. The FCC has thus far adopted rules permitting television stations to share a single 6 megahertz channel and requested comment on proposals that include, among other things, whether to add new frequency allocations in the television bands for licensed fixed and mobile wireless uses and whether to implement technical rule modifications to improve the viability of certain channels that are underutilized by digital television stations. In February 2012, Congress adopted legislation authorizing the FCC to conduct an incentive auction whereby television broadcasters could voluntarily relinquish all or part of their spectrum in exchange for consideration. In June 2014, the FCC released a Report and Order adopting rules to implement the broadcast television spectrum incentive auction, including rules addressing the design of the incentive auction and various technical issues related to the reallocation of television spectrum for mobile broadband use. Various parties

have filed petitions for reconsideration and court appeals of the Report and Order. The FCC has decided and will decide additional issues related to the incentive auction, including final auction procedures and still-outstanding technical issues, in separate proceedings. The FCC has stated its intention to conduct the incentive auction in early 2016. A reallocation of television spectrum for wireless broadband use will involve a “repacking” of the television broadcast band, which would require some television stations to change channel or otherwise modify their technical facilities. Future steps to reallocate television spectrum to broadband use may be to the detriment of the Company’s investment in digital facilities, could require substantial additional investment to continue current operations, and may require viewers to invest in additional equipment or subscription services to continue receiving broadcast television signals. The Company cannot predict the timing or results of television spectrum reallocation efforts or their impact to its business.

## Retransmission Consent

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

In March 2014, the FCC adopted a rule that prohibits joint retransmission consent negotiation between television stations in the same market which are not commonly owned and which are ranked among the top four stations in the market in terms of audience share. This new rule requires Nexstar and Mission to separately negotiate retransmission consent agreements for certain of their stations. This new rule is now effective and is the subject of a pending court appeal.

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

## 8. Commitments and Contingencies

### Guarantee of Mission Debt

Nexstar guarantees full payment of all obligations incurred under Mission's senior secured credit facility. In the event that Mission is unable to repay amounts due, Nexstar will be obligated to repay such amounts. The maximum potential amount of future payments that Nexstar would be required to make under this guarantee would be generally limited to the amount of borrowings outstanding. As of September 30, 2014, Mission had a maximum commitment of \$320.5 million under its senior secured credit facility, of which \$230.5 million of debt was outstanding.

### Indemnification Obligations

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

### Litigation

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

## 9. Condensed Consolidating Financial Information

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

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

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

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



## CONDENSED CONSOLIDATING BALANCE SHEET

As of September 30, 2014

(in thousands)

|   | Nexstar   | Nexstar<br>Broadcasting | Mission    | Nexstar<br>Holdings | Eliminations  | Consolidated<br>Company |
|---|-----------|-------------------------|------------|---------------------|---------------|-------------------------|
| <b>ASSETS</b>   |           |                         |            |                     |               |                         |
| Current assets:   |           |                         |            |                     |               |                         |
| Cash and cash equivalents                                 | \$-       | \$ 64,804               | \$ 3,872   | \$-                 | \$ -          | \$ 68,676               |
| Due from Nexstar Broadcasting                             | -         | -                       | 10,981     | -                   | (10,981 )     | -                       |
| Other current assets                                      | -         | 145,275                 | 16,174     | -                   | -             | 161,449                 |
| Total current assets                                      | -         | 210,079                 | 31,027     | -                   | (10,981 )     | 230,125                 |
| Investments in subsidiaries eliminated upon consolidation |           |                         |            |                     |               |                         |
|   | 88,326    | -                       | -          | 103,568             | (191,894 )    | -                       |
| Amounts due from parents eliminated upon consolidation    |           |                         |            |                     |               |                         |
|   | -         | 17,253                  | -          | -                   | (17,253 )     | -                       |
| Property and equipment, net                               | -         | 190,770                 | 24,824     | -                   | -             | 215,594                 |
| Goodwill  | -         | 181,964                 | 32,489     | -                   | -             | 214,453                 |
| FCC licenses  | -         | 254,946                 | 41,563     | -                   | -             | 296,509                 |
| Other intangible assets, net                              | -         | 148,647                 | 21,920     | -                   | -             | 170,567                 |
| Other noncurrent assets                                   | -         | 63,847                  | 28,996     | -                   | -             | 92,843                  |
| Total assets  | \$ 88,326 | \$ 1,067,506            | \$ 180,819 | \$ 103,568          | \$ (220,128 ) | \$ 1,220,091            |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)</b>     |           |                         |            |                     |               |                         |
| Current liabilities:                                      |           |                         |            |                     |               |                         |
| Current portion of debt                                   | \$-       | \$ 5,623                | \$ 1,837   | \$-                 | \$ -          | \$ 7,460                |
| Due to Mission  | -         | 10,981                  | -          | -                   | (10,981 )     | -                       |
| Other current liabilities                                 | -         | 69,010                  | 5,875      | -                   | -             | 74,885                  |
| Total current liabilities                                 | -         | 85,614                  | 7,712      | -                   | (10,981 )     | 82,345                  |
| Debt  | -         | 851,679                 | 228,301    | -                   | -             | 1,079,980               |
| Amounts due to subsidiary eliminated upon consolidation   |           |                         |            |                     |               |                         |
|   | 2,013     | -                       | -          | 15,240              | (17,253 )     | -                       |
| Other noncurrent liabilities                              | (3 )      | 26,645                  | 8,923      | 2                   | -             | 35,567                  |
| Total liabilities   | 2,010     | 963,938                 | 244,936    | 15,242              | (28,234 )     | 1,197,892               |
| Stockholders' equity (deficit)                            | 86,316    | 103,568                 | (64,117 )  | 88,326              | (191,894 )    | 22,199                  |
| Total liabilities and stockholders' equity (deficit)      |           |                         |            |                     |               |                         |
|   | \$ 88,326 | \$ 1,067,506            | \$ 180,819 | \$ 103,568          | \$ (220,128 ) | \$ 1,220,091            |



## CONDENSED CONSOLIDATING BALANCE SHEET

As of December 31, 2013

(in thousands)

|   | Nexstar   | Nexstar<br>Broadcasting | Mission    | Nexstar<br>Holdings | Eliminations  | Consolidated<br>Company |
|---|-----------|-------------------------|------------|---------------------|---------------|-------------------------|
| <b>ASSETS</b>                               |           |                         |            |                     |               |                         |
| Current assets:                             |           |                         |            |                     |               |                         |
| Cash and cash equivalents                   | \$-       | \$ 36,312               | \$ 3,716   | \$-                 | \$-           | \$ 40,028               |
| Due from Mission                            | -         | 3,847                   | -          | -                   | (3,847 )      | -                       |
| Other current assets                        | -         | 146,298                 | 14,840     | -                   | -             | 161,138                 |
| Total current assets                        | -         | 186,457                 | 18,556     | -                   | (3,847 )      | 201,166                 |
| Investments in subsidiaries eliminated upon |           |                         |            |                     |               |                         |
| consolidation                               | 61,100    | -                       | -          | 76,342              | (137,442 )    | -                       |
| Amounts due from subsidiary eliminated upon |           |                         |            |                     |               |                         |
| consolidation                               | 259       | -                       | -          | -                   | (259 )        | -                       |
| Amounts due from parents eliminated upon    |           |                         |            |                     |               |                         |
| consolidation                               | -         | 14,981                  | -          | -                   | (14,981 )     | -                       |
| Property and equipment, net                 | -         | 185,499                 | 26,760     | -                   | -             | 212,259                 |
| Goodwill                                    | -         | 165,563                 | 32,489     | -                   | -             | 198,052                 |
| FCC licenses                                | -         | 247,457                 | 41,563     | -                   | -             | 289,020                 |
| Other intangible assets, net                | -         | 138,683                 | 24,038     | -                   | -             | 162,721                 |
| Other noncurrent assets                     | -         | 69,161                  | 31,343     | -                   | -             | 100,504                 |
| Total assets                                | \$ 61,359 | \$ 1,007,801            | \$ 174,749 | \$ 76,342           | \$ (156,529 ) | \$ 1,163,722            |
| <b>LIABILITIES AND STOCKHOLDERS'</b>        |           |                         |            |                     |               |                         |
| <b>EQUITY (DEFICIT)</b>                     |           |                         |            |                     |               |                         |
| Current liabilities:                        |           |                         |            |                     |               |                         |
| Current portion of debt                     | \$-       | \$ 4,523                | \$ 2,334   | \$-                 | \$-           | \$ 6,857                |
| Due to Nexstar Broadcasting                 | -         | -                       | 3,847      | -                   | (3,847 )      | -                       |
| Other current liabilities                   | -         | 72,115                  | 4,950      | -                   | -             | 77,065                  |
| Total current liabilities                   | -         | 76,638                  | 11,131     | -                   | (3,847 )      | 83,922                  |
| Debt  | -         | 834,131                 | 230,131    | -                   | -             | 1,064,262               |
| Amounts due to subsidiary eliminated upon   |           |                         |            |                     |               |                         |
| consolidation                               | -         | -                       | -          | 15,240              | (15,240 )     | -                       |
| Other noncurrent liabilities                | (3 )      | 20,690                  | 8,080      | 2                   | -             | 28,769                  |
| Total liabilities                           | (3 )      | 931,459                 | 249,342    | 15,242              | (19,087 )     | 1,176,953               |
| Stockholders' equity (deficit):             | 61,362    | 76,342                  | (74,593 )  | 61,100              | (137,442 )    | (13,231 )               |
| Total liabilities and stockholders'         | \$ 61,359 | \$ 1,007,801            | \$ 174,749 | \$ 76,342           | \$ (156,529 ) | \$ 1,163,722            |

equity (deficit)

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## CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS

Three Months Ended September 30, 2014

(in thousands)

|  | Nexstar  | Nexstar<br>Broadcasting | Mission  | Nexstar<br>Holdings | Eliminations | Consolidated<br>Company |
|--|----------|-------------------------|----------|---------------------|--------------|-------------------------|
| Net broadcast revenue (including trade and barter)                                     | \$-      | \$ 148,675              | \$9,069  | \$-                 | \$ -         | \$ 157,744              |
| Revenue between consolidated entities  | -        | 2,445                   | 10,105   | -                   | (12,550 )    | -                       |
| Net revenue  | -        | 151,120                 | 19,174   | -                   | (12,550 )    | 157,744                 |
| Operating expenses:  |          |                         |          |                     |              |                         |
| Direct operating expenses, excluding depreciation and amortization                     | -        | 43,759                  | 4,636    | -                   | -            | 48,395                  |
| Selling, general, and administrative expenses, excluding depreciation and amortization | -        | 42,941                  | 711      | -                   | -            | 43,652                  |
| Local service agreement fees between consolidated entities                             | -        | 10,105                  | 2,445    | -                   | (12,550 )    | -                       |
| Amortization of broadcast rights   | -        | 7,310                   | 1,461    | -                   | -            | 8,771                   |
| Amortization of intangible assets  | -        | 5,757                   | 635      | -                   | -            | 6,392                   |
| Depreciation   | -        | 8,177                   | 661      | -                   | -            | 8,838                   |
| Total operating expenses   | -        | 118,049                 | 10,549   | -                   | (12,550 )    | 116,048                 |
| Income from operations   | -        | 33,071                  | 8,625    | -                   | -            | 41,696                  |
| Interest expense, net  | -        | (12,970 )               | (2,560 ) | -                   | -            | (15,530 )               |
| Loss on extinguishment of debt   | -        | -                       | -        | -                   | -            | -                       |
| Other expenses   | -        | (172 )                  | -        | -                   | -            | (172 )                  |
| Equity in income of subsidiaries   | 11,710   | -                       | -        | 11,710              | (23,420 )    | -                       |
| Income before income taxes   | 11,710   | 19,929                  | 6,065    | 11,710              | (23,420 )    | 25,994                  |
| Income tax expense   | -        | (8,219 )                | (2,371 ) | -                   | -            | (10,590 )               |
| Net income   | \$11,710 | \$ 11,710               | \$3,694  | \$ 11,710           | \$ (23,420 ) | \$ 15,404               |

## CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS

Three Months Ended September 30, 2013

(in thousands)

|  | Nexstar<br>Nexstar | Nexstar<br>Broadcasting | Mission  | Nexstar<br>Holdings | Eliminations | Consolidated<br>Company |
|--|--------------------|-------------------------|----------|---------------------|--------------|-------------------------|
| Net broadcast revenue (including trade and barter)                                     | \$ -               | \$ 118,214              | \$ 7,578 | \$ -                | \$ -         | \$ 125,792              |
| Revenue between consolidated entities  | -                  | 2,445                   | 9,581    | -                   | (12,026 )    | -                       |
| Net revenue  | -                  | 120,659                 | 17,159   | -                   | (12,026 )    | 125,792                 |
| Operating expenses:  |                    |                         |          |                     |              |                         |
| Direct operating expenses, excluding depreciation and amortization                     | -                  | 33,519                  | 3,751    | -                   | -            | 37,270                  |
| Selling, general, and administrative expenses, excluding depreciation and amortization | -                  | 36,882                  | 705      | -                   | -            | 37,587                  |
| Local service agreement fees between consolidated entities                             | -                  | 9,581                   | 2,445    | -                   | (12,026 )    | -                       |
| Amortization of broadcast rights   | -                  | 7,459                   | 1,729    | -                   | -            | 9,188                   |
| Amortization of intangible assets  | -                  | 6,246                   | 1,750    | -                   | -            | 7,996                   |
| Depreciation   | -                  | 7,748                   | 850      | -                   | -            | 8,598                   |
| Total operating expenses   | -                  | 101,435                 | 11,230   | -                   | (12,026 )    | 100,639                 |
| Income from operations   | -                  | 19,224                  | 5,929    | -                   | -            | 25,153                  |
| Interest expense, net  | -                  | (12,447 )               | (4,453 ) | -                   | -            | (16,900 )               |
| Loss on extinguishment of debt   | -                  | (1,048 )                | -        | -                   | -            | (1,048 )                |
| Other expenses   | -                  | (84 )                   | -        | -                   | -            | (84 )                   |
| Equity in income of subsidiaries   | 2,871              | -                       | -        | 2,871               | (5,742 )     | -                       |
| Income before income taxes   | 2,871              | 5,645                   | 1,476    | 2,871               | (5,742 )     | 7,121                   |
| Income tax expense   | -                  | (2,774 )                | (752 )   | -                   | -            | (3,526 )                |
| Net income   | \$ 2,871           | \$ 2,871                | \$ 724   | \$ 2,871            | \$ (5,742 )  | \$ 3,595                |

## CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS

Nine Months Ended September 30, 2014

(in thousands)

|  | Nexstar  | Nexstar<br>Broadcasting | Mission   | Nexstar<br>Holdings | Eliminations | Consolidated<br>Company |
|--|----------|-------------------------|-----------|---------------------|--------------|-------------------------|
| Net broadcast revenue (including trade and barter)                                     | \$-      | \$ 411,809              | \$26,698  | \$-                 | \$ -         | \$ 438,507              |
| Revenue between consolidated entities  | -        | 7,335                   | 29,561    | -                   | (36,896 )    | -                       |
| Net revenue  | -        | 419,144                 | 56,259    | -                   | (36,896 )    | 438,507                 |
| Operating expenses:  |          |                         |           |                     |              |                         |
| Direct operating expenses, excluding depreciation and amortization                     | -        | 122,243                 | 13,258    | -                   | -            | 135,501                 |
| Selling, general, and administrative expenses, excluding depreciation and amortization | -        | 126,171                 | 2,317     | -                   | -            | 128,488                 |
| Local service agreement fees between consolidated entities                             | -        | 29,561                  | 7,335     | -                   | (36,896 )    | -                       |
| Amortization of broadcast rights   | -        | 21,331                  | 4,352     | -                   | -            | 25,683                  |
| Amortization of intangible assets  | -        | 16,579                  | 2,118     | -                   | -            | 18,697                  |
| Depreciation   | -        | 23,683                  | 2,117     | -                   | -            | 25,800                  |
| Total operating expenses   | -        | 339,568                 | 31,497    | -                   | (36,896 )    | 334,169                 |
| Income from operations   | -        | 79,576                  | 24,762    | -                   | -            | 104,338                 |
| Interest expense, net  | -        | (38,463 )               | (7,576 )  | -                   | -            | (46,039 )               |
| Loss on extinguishment of debt   | -        | (50 )                   | (21 )     | -                   | -            | (71 )                   |
| Other expenses   | -        | (427 )                  | -         | -                   | -            | (427 )                  |
| Equity in income of subsidiaries   | 23,225   | -                       | -         | 23,225              | (46,450 )    | -                       |
| Income before income taxes   | 23,225   | 40,636                  | 17,165    | 23,225              | (46,450 )    | 57,801                  |
| Income tax expense   | -        | (17,411 )               | (6,689 )  | -                   | -            | (24,100 )               |
| Net income   | \$23,225 | \$ 23,225               | \$ 10,476 | \$ 23,225           | \$ (46,450 ) | \$ 33,701               |

## CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS

Nine Months Ended September 30, 2013

(in thousands)

|  | Nexstar  | Nexstar      | Mission   | Nexstar  | Consolidated |            |
|--|----------|--------------|-----------|----------|--------------|------------|
|  | Nexstar  | Broadcasting |           | Holdings | Eliminations | Company    |
| Net broadcast revenue (including trade and barter) | \$ -     | \$ 342,326   | \$ 21,882 | \$ -     | \$ -         | \$ 364,208 |
| Revenue between consolidated entities              | -        | 7,295        | 28,885    | -        | (36,180 )    | -          |
| Net revenue  | -        | 349,621      | 50,767    | -        | (36,180 )    | 364,208    |
| Operating expenses:                                |          |              |           |          |              |            |
| Direct operating expenses, excluding               |          |              |           |          |              |            |
| depreciation and amortization                      | -        | 97,079       | 10,756    | -        | -            | 107,835    |
| Selling, general, and administrative expenses,     |          |              |           |          |              |            |
| excluding depreciation and amortization            | -        | 108,386      | 2,266     | -        | -            | 110,652    |
| Local service agreement fees between               |          |              |           |          |              |            |
| consolidated entities                              | -        | 28,885       | 7,295     | -        | (36,180 )    | -          |
| Amortization of broadcast rights                   | -        | 22,046       | 4,821     | -        | -            | 26,867     |
| Amortization of intangible assets                  | -        | 17,414       | 5,486     | -        | -            | 22,900     |
| Depreciation                                       | -        | 22,020       | 2,771     | -        | -            | 24,791     |
| Total operating expenses                           | -        | 295,830      | 33,395    | -        | (36,180 )    | 293,045    |
| Income from operations                             | -        | 53,791       | 17,372    | -        | -            | 71,163     |
| Interest expense, net                              | -        | (36,916 )    | (13,436)  | -        | -            | (50,352 )  |
| Loss on extinguishment of debt                     | -        | (1,048 )     | -         | -        | -            | (1,048 )   |
| Other expenses                                     | -        | (252 )       | -         | -        | -            | (252 )     |
| Equity in income of subsidiaries                   | 8,443    | -            | -         | 8,443    | (16,886 )    | -          |
| Income before income taxes                         | 8,443    | 15,575       | 3,936     | 8,443    | (16,886 )    | 19,511     |
| Income tax expense                                 | -        | (7,132 )     | (1,712 )  | -        | -            | (8,844 )   |
| Net income   | \$ 8,443 | \$ 8,443     | \$ 2,224  | \$ 8,443 | \$ (16,886 ) | \$ 10,667  |



## CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

Nine Months Ended September 30, 2014

(in thousands)

|  | Nexstar  | Nexstar<br>Broadcasting | Mission | Nexstar<br>Holdings | Eliminations | Consolidated<br>Company |
|--|----------|-------------------------|---------|---------------------|--------------|-------------------------|
| Cash flows from operating activities   | \$-      | \$ 114,603              | \$6,039 | \$ -                | \$ -         | \$ 120,642              |
| Cash flows from investing activities:  |          |                         |         |                     |              |                         |
| Purchases of property and equipment    | -        | (13,723 )               | (181 )  | -                   | -            | (13,904 )               |
| Deposits and payments for acquisitions | -        | (82,098 )               | (3,200) | -                   | -            | (85,298 )               |
| Other investing activities             | -        | 82                      | -       | -                   | -            | 82                      |
| Net cash used in investing activities  | -        | (95,739 )               | (3,381) | -                   | -            | (99,120 )               |
| Cash flows from financing activities:  |          |                         |         |                     |              |                         |
| Proceeds from long-term debt           | -        | 24,938                  | -       | -                   | -            | 24,938                  |
| Repayments of long-term debt           | -        | (6,370 )                | (2,373) | -                   | -            | (8,743 )                |
| Common stock dividends paid            | (13,812) | -                       | -       | -                   | -            | (13,812 )               |
| Inter-company payments                 | 12,521   | (12,521 )               | -       | -                   | -            | -                       |
| Other financing activities             | 1,291    | 3,581                   | (129 )  | -                   | -            | 4,743                   |
| Net cash provided by (used in)         |          |                         |         |                     |              |                         |
| financing activities                   | -        | 9,628                   | (2,502) | -                   | -            | 7,126                   |
| Net increase in cash and cash          |          |                         |         |                     |              |                         |
| equivalents                            | -        | 28,492                  | 156     | -                   | -            | 28,648                  |
| Cash and cash equivalents at beginning |          |                         |         |                     |              |                         |
| of period                              | -        | 36,312                  | 3,716   | -                   | -            | 40,028                  |
| Cash and cash equivalents at end of    |          |                         |         |                     |              |                         |
| period                                 | \$-      | \$ 64,804               | \$3,872 | \$ -                | \$ -         | \$ 68,676               |

## CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

Nine Months Ended September 30, 2013

(in thousands)

|  | Nexstar  | Nexstar<br>Broadcasting | Mission  | Nexstar<br>Holdings | Eliminations | Consolidated<br>Company |
|--|----------|-------------------------|----------|---------------------|--------------|-------------------------|
| Cash flows from operating activities   | \$-      | \$ 41,772               | \$(743 ) | \$ -                | \$ 2,917     | \$ 43,946               |
| Cash flows from investing activities:  |          |                         |          |                     |              |                         |
| Purchases of property and equipment    | -        | (14,319 )               | (81 )    | -                   | -            | (14,400 )               |
| Deposits and payments for acquisitions | -        | (161,321 )              | (59,509) | -                   | -            | (220,830 )              |
| Other investing activities             | -        | 51                      | 2,917    | -                   | (2,917 )     | 51                      |
| Net cash used in investing activities  | -        | (175,589 )              | (56,673) | -                   | (2,917 )     | (235,179 )              |
| Cash flows from financing activities:  |          |                         |          |                     |              |                         |
| Proceeds from long-term debt           | -        | 158,875                 | 65,000   | -                   | -            | 223,875                 |
| Repayments of long-term debt           | -        | (65,393 )               | (5,520 ) | -                   | -            | (70,913 )               |
| Common stock dividends paid            | (10,654) | -                       | -        | -                   | -            | (10,654 )               |
| Purchase of treasury stock             | (8,422 ) | -                       | -        | -                   | -            | (8,422 )                |
| Inter-company payments                 | 12,914   | (12,914 )               | -        | -                   | -            | -                       |
| Other financing activities             | 6,162    | 7,145                   | (340 )   | -                   | -            | 12,967                  |
| Net cash provided by financing         |          |                         |          |                     |              |                         |
| activities                             | -        | 87,713                  | 59,140   | -                   | -            | 146,853                 |
| Net (decrease) increase in cash and    |          |                         |          |                     |              |                         |
| cash equivalents                       | -        | (46,104 )               | 1,724    | -                   | -            | (44,380 )               |
| Cash and cash equivalents at beginning |          |                         |          |                     |              |                         |
| of period                              | -        | 68,681                  | 318      | -                   | -            | 68,999                  |
| Cash and cash equivalents at end       |          |                         |          |                     |              |                         |
| of period                              | \$-      | \$ 22,577               | \$2,042  | \$ -                | \$ -         | \$ 24,619               |

10. Subsequent Events

On October 21, 2014, Nexstar entered into a definitive agreement to acquire the assets of KASW, the CW affiliate in the Phoenix, Arizona market from Meredith and SagamoreHill for \$68.0 million. The purchase price is expected to be funded through borrowings under the Company's senior secured credit facilities. The acquisition is subject to FCC approval and other customary conditions and Nexstar expects it to close during the first quarter of 2015.

On October 24, 2014, Nexstar's Board of Directors declared a quarterly dividend of \$0.15 per share of its Class A common stock. The dividend is payable on November 21, 2014 to stockholders of record on November 7, 2014.

On October 24, 2014, Nexstar entered into a definitive agreement to acquire the assets of KCWI, the CW affiliate in the Des Moines-Ames, Iowa market from Pappas for \$3.5 million. A deposit of \$0.2 million was paid upon signing the purchase agreement. The remaining purchase price is expected to be funded through cash on hand. The acquisition is subject to FCC approval and other customary conditions and Nexstar expects it to close during the first quarter of 2015.

On October 31, 2014, Mission re-allocated its unused Term Loan A Facility of \$60.0 million to Nexstar. Concurrently, Nexstar borrowed \$147.2 million under the Term Loan A Facilities, including the amounts re-allocated from Mission, to partially fund the remaining purchase price due upon closing for the acquisition of television stations from Grant and CCA.

## ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis should be read in conjunction with our Condensed Consolidated Financial Statements and related Notes included elsewhere in this Quarterly Report on Form 10-Q and the Consolidated Financial Statements and related Notes contained in our Annual Report on Form 10-K for the year ended December 31, 2013.

As used in the report, unless the context indicates otherwise, "Nexstar" refers to Nexstar Broadcasting Group, Inc. and its consolidated subsidiaries Nexstar Finance Holdings, Inc. ("Nexstar Holdings") and Nexstar Broadcasting, and "Mission" refers to Mission Broadcasting, Inc. All references to "we," "our," "ours," and "us" refer to Nexstar. All references to the "Company" refer to Nexstar and Mission collectively.

As a result of our deemed controlling financial interest in Mission, in accordance with U.S. GAAP, we consolidate the financial position, results of operations and cash flows of Mission as if it were a wholly-owned entity. We believe this presentation is meaningful for understanding our financial performance. Refer to Note 2 to our Condensed Consolidated Financial Statements for a discussion of our determination that we are required to consolidate Mission's financial position, results of operations and cash flows under the authoritative guidance for variable interest entities. Therefore, the following discussion of our financial condition and results of operations includes Mission's financial position and results of operations.

### Executive Summary

#### 2014 Highlights

- Net revenue during the third quarter of 2014 increased by \$32.0 million, or 25.4% compared to the same period in 2013. The increase in net revenue was primarily due to acquisitions completed in 2014, an increase in retransmission compensation on our legacy stations and an increase in advertising revenue on our legacy stations as 2014 is a political year. The incremental revenue from our newly acquired entities, net of a terminated outsourcing agreement of one station, was approximately \$15.6 million for the third quarter of 2014.
- For each of the three quarters during 2014, our Board of Directors declared dividends of \$0.15 per share of Nexstar's outstanding common stock, or total dividend payments of \$13.8 million.
- On March 13, 2014, we completed our acquisitions of the assets of KCAU, the ABC affiliate serving the Sioux City, Iowa market and WHBF, the CBS affiliate serving the Quad Cities, Iowa market, and the outstanding equity of WOI, the ABC affiliate serving the Des Moines, Iowa market, from Citadel. The total purchase price of these acquisitions amounted to \$87.9 million, of which \$65.9 million was paid during 2013, funded by a combination of borrowings under our senior secured credit facility and cash on hand, and the remaining \$22.0 million was paid in March 2014, funded by cash on hand.
- Effective April 1, 2014, we acquired the assets of IBS, a digital publishing platform and digital agency services provider, for a total purchase price of \$18.8 million, funded by cash on hand. On May 15, 2014, we acquired the outstanding equity of ETG, a digital content management firm that offers solutions for media companies to build a presence on the web and in the mobile content sector, for a total purchase price of \$7.2 million, funded by cash on hand. These acquisitions broaden our digital media portfolio with technologies and offerings that are complementary to our existing digital businesses and multi-screen strategies.
- Effective June 13, 2014, we completed the acquisition of 3 television stations and 2 satellite stations from Gray TV for \$34.5 million in cash, funded by a combination of proceeds from borrowings under our Term Loan A Facility and cash on hand. The acquired stations along with their network affiliations are: WMBB, the ABC affiliate in the Panama City, Florida market, KREX/KREG/KREY, the CBS affiliates and KGJT, the MyNetworkTV affiliate, all in the Grand Junction, Colorado market.
- On June 13, 2014, Mission paid a \$3.2 million deposit to acquire KFQX from Parker pursuant to the amended purchase agreement. Mission expects to fund the remaining purchase price of \$0.8 million through cash generated from operations prior to closing, which Mission expects to occur during the fourth quarter of 2014.



- We have restructured our pending acquisitions from CCA, White Knight and Grant, such that Mission and Rocky Creek will no longer participate in the acquisitions and White Knight will continue to own and operate its stations. In June 2014, Mission entered into an assignment and assumption agreement with Marshall whereby Marshall assumed Mission's rights and obligations to acquire CCA television stations KPEJ, the FOX affiliate serving the Odessa-Midland market and KMSS, the FOX affiliate serving the Shreveport market, and Grant television station KLJB, the FOX affiliate in the Quad Cities, Iowa market. Additionally, simultaneous with our acquisition of CCA, we will sell the CCA television station WEVV, the CBS and FOX affiliate serving the Evansville market, to BCB. These transactions are subject to DOJ approval and FCC consent and we expect them to close during the fourth quarter of 2014. We will fund the remaining purchase price of \$243.0 million to acquire CCA and \$79.0 million to acquire Grant through cash generated from operations prior to closing and borrowings under existing credit facilities. Marshall will fund the payment of \$58.6 million purchase price to us through future credit transactions which we have agreed to guarantee.
- On October 21, 2014, we entered into a definitive agreement to acquire the assets of KASW, the CW affiliate in the Phoenix, Arizona market from Meredith and SagamoreHill for \$68.0 million, subject to adjustments for working capital. We expect the purchase price to be funded through borrowings under the existing credit facilities. The acquisition is subject to FCC approval and other customary conditions and we expect it to close during the first quarter of 2015.
- On October 24, 2014, Nexstar entered into a definitive agreement to acquire the assets of KCWI, the CW affiliate in the Des Moines-Ames, Iowa market from Pappas for \$3.5 million, subject to adjustments for working capital. A deposit of \$0.2 million was paid upon signing the purchase agreement. The remaining purchase price is expected to be funded through cash on hand. The acquisition is subject to FCC approval and other customary conditions and we expect it to close during the first quarter of 2015.
- Effective April 30, 2014, we and Mission amended each of our credit agreements. The amendments increased the total commitments under our Term Loan A Facility from \$144.0 million to \$159.0 million and reduced Mission's total commitments under its Term Loan A Facility from \$90.0 million to \$60.0 million. Pursuant to the terms of the amended credit agreements, we may also reallocate our unused Term Loan A Facility to Mission and Mission may reallocate its unused Term Loan A Facility to us. Additionally, the amendments increased the commitment fees on unused Term Loan A Facilities from 0.5% to 1.0% and extended the quarterly principal payments commencement to December 31, 2014.
- On June 12, 2014, we borrowed \$25.0 million under our Term Loan A Facility to partially fund our acquisition of certain television stations from Gray TV.
- On October 31, 2014, Mission re-allocated its unused Term Loan A Facility of \$60.0 million to us. Concurrently, we borrowed \$147.2 million under our and Mission's Term Loan A Facilities to partially fund the remaining purchase price due upon closing for our acquisition of television stations from Grant and CCA.
- In March, June and September 2014, we and Mission collectively repaid a total of \$8.7 million of the outstanding principal balances under our and Mission's term loans.

#### Overview of Operations

As of September 30, 2014, we owned, operated, programmed or provided sales and other services to 80 television stations and 21 digital multicast channels, including those owned by Mission, in 46 markets in the states of Illinois, Indiana, Maryland, Missouri, Montana, Tennessee, Texas, Pennsylvania, Louisiana, Arkansas, Alabama, New York, Florida, Wisconsin, Michigan, Utah, Vermont, California, Iowa and Colorado. The stations are affiliates of ABC (20 stations), NBC (16 stations), FOX (14 stations), CBS (16 stations), The CW (6 stations and 2 digital multicast channels), MyNetworkTV (7 stations and 2 digital multicast channels), Telemundo (one station and one digital multicast channel), Bounce TV (9 digital multicast channels), Me-TV (3 digital multicast channels), LiveWell (2 digital multicast channels), LATV (one digital multicast channel) and Weather Nation Utah (one digital multicast channel). Through various local service agreements, we provided sales, programming and other services to 22 stations and 2 digital multicast channels owned and/or operated by independent third parties. See Note 2 to our condensed consolidated financial statements in this Form 10-Q for a discussion of the local service agreements we have with Mission.

We also guarantee all obligations incurred under Mission's senior secured credit facility. Similarly, Mission is a guarantor of our senior secured credit facility and senior unsecured notes. In consideration of our guarantee of Mission's senior secured credit facility, Mission has granted us purchase options to acquire the assets and assume the liabilities of each Mission station, subject to FCC consent, for an amount equal to the greater of (1) seven times the station's cash flow, as defined in the option agreement, less the amount of its indebtedness, as defined in the option agreement, or (2) the amount of its indebtedness. Additionally, we have an option to purchase any or all of Mission's stock, subject to FCC consent, for a price equal to the pro rata portion of the greater of (1) five times the stations' cash flow, as defined in the agreement, reduced by the amount of indebtedness, as defined in the agreement, or (2) \$100,000. These option agreements (which expire on various dates between 2014 and 2024) are freely exercisable or assignable by us without consent or approval by Mission or its shareholders. We expect these option agreements to be renewed upon expiration.

We do not own Mission or its television stations. However, we are deemed under U.S. GAAP to have a controlling financial interest in Mission because of (1) the local service agreements Nexstar has with the Mission stations, (2) Nexstar's guarantee of the obligations incurred under Mission's senior secured credit facility, (3) Nexstar having power over significant activities affecting Mission's economic performance, including budgeting for advertising revenue, advertising sales and hiring and firing of sales force personnel and (4) purchase options granted by Mission that permit Nexstar to acquire the assets and assume the liabilities of each Mission station, subject to FCC consent. In compliance with FCC regulations for both us and Mission, Mission maintains complete responsibility for and control over programming, finances and personnel for its stations.

### Industry Trends

As a television broadcaster, we are highly regulated and our operations require that we retain or renew a variety of government approvals and comply with changing federal regulations. Effective June 19, 2014, the FCC modified its television ownership rules such that a television licensee that sells more than 15 percent of the weekly advertising inventory of another television station in the same Designated Market Area will be deemed to have an attributable ownership interest in that station. Stations with existing JSAs that will be deemed attributable interests and do not comply with the FCC's local television ownership rule have until June 19, 2016 to amend or terminate those arrangements or to obtain waivers. Although the FCC will consider waivers of the new JSA attribution rule, the FCC thus far has provided little guidance on what factors must be present for a waiver to be granted. The Company expects to incur additional costs in complying with this new rule. We do not expect the new rules to impact our JSA revenue in 2014; however, within the next two years our company may begin to be negatively impacted by the new JSA attribution rule. If we are unable to obtain waivers from the FCC and are required to amend or terminate our existing agreements we could have a reduction in revenue and increased costs if we are unable to successfully implement alternative arrangements that are as beneficial as the existing JSAs. The Company, along with several other entities, has filed for review of the new JSA rule in the U.S. Court of Appeals for the D.C. Circuit. The D.C. Circuit currently is considering whether to hear the appeal or transfer it to the Third Circuit.

Also in March 2014, the FCC's Media Bureau issued a public notice announcing "processing guidelines" for certain pending and future applications for FCC approval of television acquisitions. The FCC will "closely scrutinize" applications which propose a JSA, SSA or LMA between television stations, combined with an option, a similar "contingent interest," or a loan guarantee. We have four announced acquisitions that are pending FCC approval which include "guideline" agreements. As a result of the recently adopted JSA rule and the processing guidelines, the timing of ultimate approval for these transactions may be delayed in part because the new rule and guidelines may require amendments or waivers in order to obtain FCC approval. We plan to respond to regulatory inquiries associated with each of the announced acquisitions and our intent is to close each of the transactions during the fourth quarter of 2014.

Also in March 2014, the FCC amended its rules governing retransmission consent negotiations. The amended rule prohibits two non-commonly owned stations ranked in the top four in viewership in a market from negotiating jointly with MVPDs. Historically, Nexstar has negotiated retransmission consent agreements jointly with Mission. In most Mission markets, Mission is now required to separately negotiate its future retransmission consent agreements with MVPDs. We cannot predict at this time the impact this amended rule will have on future negotiations with MVPDs and the impact, if any, it will have on the Company's revenues and expenses.

### Seasonality

Advertising revenue is positively affected by strong local economies, national and regional political election campaigns, and certain events such as the Olympic Games or the Super Bowl. The Company's stations' advertising revenue is generally highest in the second and fourth quarters of each year, due in part to increases in consumer advertising in the spring and retail advertising in the period leading up to, and including, the holiday season. In addition, advertising revenue is generally higher during even-numbered years, when state, congressional and presidential elections occur and advertising airs during the Olympic Games. As 2014 is an election year and an



Olympic year, we expect an increase in advertising revenue to be reported in 2014 compared to 2013.

## Historical Performance

## Revenue

The following table sets forth the amounts of the Company's principal types of revenue (in thousands) and each type of revenue (other than trade and barter) as a percentage of total gross revenue:

|                             | Three Months Ended September 30, |       |           |       | Nine Months Ended September 30, |       |           |       |
|-----------------------------|----------------------------------|-------|-----------|-------|---------------------------------|-------|-----------|-------|
|                             | 2014                             |       | 2013      |       | 2014                            |       | 2013      |       |
|                             | Amount                           | %     | Amount    | %     | Amount                          | %     | Amount    | %     |
| Local                       | \$65,828                         | 40.0  | \$63,605  | 49.0  | \$201,931                       | 44.3  | \$190,270 | 50.6  |
| National                    | 25,572                           | 15.6  | 28,646    | 22.1  | 78,836                          | 17.3  | 80,596    | 21.4  |
| Political                   | 18,179                           | 11.1  | 1,030     | 0.8   | 28,928                          | 6.3   | 3,615     | 1.0   |
| Retransmission compensation | 40,740                           | 24.8  | 25,586    | 19.7  | 110,829                         | 24.3  | 74,304    | 19.8  |
| Digital media revenue       | 12,936                           | 7.9   | 10,058    | 7.6   | 32,461                          | 7.1   | 24,223    | 6.4   |
| Other                       | 1,170                            | 0.6   | 986       | 0.8   | 3,282                           | 0.7   | 3,210     | 0.8   |
| Total gross revenue         | 164,425                          | 100.0 | 129,911   | 100.0 | 456,267                         | 100.0 | 376,218   | 100.0 |
| Less: Agency commissions    | (14,310)                         |       | (12,009)  |       | (40,218)                        |       | (35,192)  |       |
| Net broadcast revenue       | 150,115                          |       | 117,902   |       | 416,049                         |       | 341,026   |       |
| Trade and barter revenue    | 7,629                            |       | 7,890     |       | 22,458                          |       | 23,182    |       |
| Net revenue                 | \$157,744                        |       | \$125,792 |       | \$438,507                       |       | \$364,208 |       |

## Results of Operations

The following table sets forth a summary of the Company's operations (in thousands) and each component of operating expense as a percentage of net revenue:

|  | Three Months Ended September 30, |       |           |       | Nine Months Ended September 30, |       |           |       |
|--|----------------------------------|-------|-----------|-------|---------------------------------|-------|-----------|-------|
|  | 2014                             |       | 2013      |       | 2014                            |       | 2013      |       |
|  | Amount                           | %     | Amount    | %     | Amount                          | %     | Amount    | %     |
| Net revenue  | \$157,744                        | 100.0 | \$125,792 | 100.0 | \$438,507                       | 100.0 | \$364,208 | 100.0 |
| Operating expenses:                                  |                                  |       |           |       |                                 |       |           |       |
| Corporate expenses                                   | 8,680                            | 5.5   | 6,682     | 5.3   | 26,285                          | 6.0   | 20,294    | 5.6   |
| Station direct operating expenses, net of trade      | 46,257                           | 29.3  | 35,557    | 28.3  | 129,821                         | 29.6  | 102,556   | 28.2  |
| Station selling, general and administrative expenses | 34,972                           | 22.2  | 30,905    | 24.6  | 102,203                         | 23.3  | 90,358    | 24.8  |
| Trade and barter expense                             | 7,736                            | 4.9   | 7,636     | 6.1   | 22,459                          | 5.1   | 22,601    | 6.2   |
| Depreciation   | 8,838                            | 5.6   | 8,598     | 6.8   | 25,800                          | 5.9   | 24,791    | 6.8   |
| Amortization of intangible assets                    | 6,392                            | 4.1   | 7,996     | 6.4   | 18,697                          | 4.3   | 22,900    | 6.3   |
| Amortization of broadcast rights, excluding barter   | 3,173                            | 2.0   | 3,265     | 2.5   | 8,904                           | 2.0   | 9,545     | 2.6   |
| Income from operations                               | \$41,696                         |       | \$25,153  |       | \$104,338                       |       | \$71,163  |       |



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Three Months Ended September 30, 2014 Compared to Three Months Ended September 30, 2013

### Revenue

Gross local advertising revenue was \$65.8 million for the three months ended September 30, 2014, compared to \$63.6 million for the same period in 2013, an increase of \$2.2 million, or 3.5%. Gross national advertising revenue was \$25.6 million for the three months ended September 30, 2014, compared to \$28.6 million for the same period in 2013, a decrease of \$3.1 million, or 10.7%. The net decrease in our local and national advertising revenue of \$3.5 million was primarily attributable to changes in the mix between our legacy stations' local, national and political advertising revenue. This decrease was partially offset by incremental revenue from our newly acquired stations of \$2.7 million, net of a terminated outsourcing agreement of one station. Our largest advertiser category, automotive, represented 25.9% and 25.8% of our legacy stations' local and national advertising revenue for the three months ended September 30, 2014 and 2013, respectively. Overall, this category decreased by 3.9% for our legacy stations. The other categories representing our top five for our legacy stations were fast food/restaurants, which decreased 18.0%, furniture, which increased 0.5%, radio/TV/cable/newspaper, which decreased 13.4%, and department/retail stores, which increased 5.3%.

Gross political advertising revenue was \$18.2 million for the three months ended September 30, 2014, compared to \$1.0 million for the same period in 2013, an increase of \$17.1 million, due to 2014 being an election year.

Retransmission compensation was \$40.7 million for the three months ended September 30, 2014, compared to \$25.6 million for the same period in 2013, an increase of \$15.2 million, or 59.2%. The increase in retransmission compensation was primarily attributable to the result of contracts providing for higher rates per subscriber during the year on our legacy stations and \$2.6 million incremental revenue from our newly acquired stations.

Digital media revenue, representing advertising revenue on our stations' web and mobile sites and other internet-based revenue, was \$12.9 million for the three months ended September 30, 2014, compared to \$10.1 million for the same period in 2013, an increase of \$2.9 million, or 28.6%. The increase was primarily attributable to \$6.4 million incremental revenue from our newly acquired stations and entities, and a \$0.9 million increase in revenue from our legacy stations primarily due to new product offerings. This was partially offset by a \$4.6 million decrease due to the termination of certain customer contracts.

### Operating Expenses

Corporate expenses, related to costs associated with the centralized management of our and Mission's stations, were \$8.7 million for the three months ended September 30, 2014, compared to \$6.7 million for the same period in 2013, an increase of \$2.0 million, or 29.9%. This was primarily attributable to an increase in stock-based compensation expense of \$1.3 million due to equity incentive awards during 2014 and an increase in bonus expense of \$0.4 million related to the increased number of stations and higher revenue.

Station direct operating expenses, consisting primarily of news, engineering, programming and station selling, general and administrative expenses (net of trade expense) were \$81.2 million for the three months ended September 30, 2014, compared to \$66.5 million for the same period in 2013, an increase of \$14.8 million, or 22.2%. The increase was primarily due to expenses of our newly acquired stations and entities, net of a terminated outsourcing agreement of one station, of \$9.6 million and an increase in programming costs for our legacy stations of \$5.3 million primarily related to recently enacted network agreements. Networks now require additional compensation from broadcasters for the use of network programming. Network program fees have been increasing industry wide and will continue to increase over the next several years.

Depreciation of property and equipment was \$8.8 million for the three months ended September 30, 2014, compared to \$8.6 million for the same period in 2013, an increase of \$0.2 million, or 2.7%, primarily due to the incremental

depreciation of fixed assets from our newly acquired stations and entities, partially offset by decreases in depreciation from certain fully depreciated property and equipment.

Amortization of intangible assets was \$6.4 million for the three months ended September 30, 2014, compared to \$8.0 million for the same period in 2013, a decrease of \$1.6 million, or 20.1%. This was primarily attributable to decreases in amortization of other intangible assets from certain fully amortized assets, partially offset by incremental amortization of our newly acquired intangible assets.

Amortization of broadcast rights, excluding barter was \$3.2 million for the three months ended September 30, 2014, compared to \$3.3 million for the same period in 2013, a decrease of \$0.1 million, or 2.8%, primarily attributable to nonrecurring adjustments to the net realizable value of broadcast rights during 2013, partially offset by incremental amortization from our newly acquired stations.

## Interest Expense

Interest expense, net was \$15.5 million for the three months ended September 30, 2014, compared to \$16.9 million for the same period in 2013, a decrease of \$1.4 million, or 8.1%. The decrease was primarily attributable to lower interest rates on the Company's outstanding debt as a result of refinancing the \$325.0 million 8.875% senior second lien notes ("8.875% Notes") into a combination of \$275.0 million 6.875% senior unsecured notes ("6.875% Notes") and borrowings under our and Mission's amended credit facilities during the fourth quarter of 2013. This decrease was partially offset by additional interest on increased borrowings during 2013 and 2014 to fund our and Mission's acquisitions.

## Loss on extinguishment of debt

In 2013, Nexstar recognized \$1.0 million of loss on extinguishment of debt related to a \$10.4 million partial repurchase of the 8.875% Notes.

## Income Taxes

Income tax expense was \$10.6 million for the three months ended September 30, 2014, compared to \$3.5 million for the same period in 2013, an increase of \$7.1 million. The effective tax rates for the three months ended September 30, 2014 and 2013 were 40.7% and 49.5%, respectively. The effective tax rate variance primarily relates to true-ups adjustments for 2012 tax return filings completed during 2013 and an overall reduction in the effective state tax rate from 2013 to 2014.

## Nine Months Ended September 30, 2014 Compared to Nine Months Ended September 30, 2013

### Revenue

Gross local advertising revenue was \$201.9 million for the nine months ended September 30, 2014, compared to \$190.3 million for the same period in 2013, an increase of \$11.7 million, or 6.1%. Gross national advertising revenue was \$78.8 million for the nine months ended September 30, 2014, compared to \$80.6 million for the same period in 2013, a decrease of \$1.8 million, or 2.2%. The net increase in local and national advertising revenue was primarily attributable to incremental revenue from our newly acquired stations of \$10.1 million, net of a terminated outsourcing agreement of one station. During the nine months ended September 30, 2014, our legacy stations' local and national advertising revenue was comparable to the same period in 2013, which reflected the first quarter increases in advertising revenue from the Olympics in our NBC affiliate stations, offset by changes in the mix between our legacy stations' local, national and political advertising revenue. Our largest advertiser category, automotive, represented 24.5% and 24.1% of our legacy stations' local and national advertising revenue for the nine months ended September 30, 2014 and 2013, respectively. Overall, this category increased by 1.6% for our legacy stations. The other categories representing our top five for our legacy stations were fast food/restaurants, which decreased 13.3%, furniture, which increased 2.9%, radio/TV/cable/newspapers, which increased 1.1% and medical/healthcare, which increased 4.0%.

Gross political advertising revenue was \$28.9 million for the nine months ended September 30, 2014, compared to \$3.6 million for the same period in 2013, an increase of \$25.3 million, due to 2014 being an election year.

Retransmission compensation was \$110.8 million for the nine months ended September 30, 2014, compared to \$74.3 million for the same period in 2013, an increase of \$36.5 million, or 49.2%. The increase in retransmission compensation was primarily attributable to the result of contracts providing for higher rates per subscriber during the year on our legacy stations and \$9.3 million incremental revenue from our newly acquired stations.

Digital media revenue, representing advertising revenue on our stations' web and mobile sites and other internet-based revenue, was \$32.5 million for the nine months ended September 30, 2014, compared to \$24.2 million for the same

period in 2013, an increase of \$8.2 million or 34.0%. The increase is primarily attributable to the \$12.6 million incremental revenue from our newly acquired stations and entities, and a \$2.1 million increase in revenue from our legacy stations primarily attributable to increased advertising revenue from the Olympics and new product offerings. This was partially offset by a \$6.2 million decrease due to the termination of certain customer contracts.

#### Operating Expenses

Corporate expenses, related to costs associated with the centralized management of Nexstar's and Mission's stations, were \$26.3 million for the nine months ended September 30, 2014, compared to \$20.3 million for the same period in 2013, an increase of \$6.0 million, or 29.5%. This was primarily attributable to an increase in stock-based compensation expense of \$3.9 million due to equity incentive awards during 2014, an increase in payroll and bonus expense of \$2.1 million related to the increased number of stations and higher revenue. These increases were partially offset by a decrease in legal and professional fees of \$1.2 million primarily associated with our and Mission's acquisitions of television stations in the prior year.

Station direct operating expenses, consisting primarily of news, engineering, programming and selling, general and administrative expenses (net of trade expense) were \$232.0 million for the nine months ended September 30, 2014, compared to \$192.9 million for the same period in 2013, an increase of \$39.1 million, or 20.3%. The increase was primarily due to expenses of our newly acquired stations and entities, net of a terminated outsourcing agreement of one station, of \$23.8 million and an increase in programming costs of our legacy stations of \$13.5 million related to recently enacted network agreements. Networks now require additional compensation from broadcasters for the use of network programming. Network program fees have been increasing industry wide and will continue to increase over the next several years.

Depreciation of property and equipment was \$25.8 million for the nine months ended September 30, 2014, compared to \$24.8 million for the same period in 2013, an increase of \$1.0 million, or 4.0%, primarily due to the incremental depreciation of fixed assets from our newly acquired stations and entities, partially offset by decreases in depreciation from certain fully depreciated property and equipment.

Amortization of intangible assets was \$18.7 million for the nine months ended September 30, 2014, compared to \$22.9 million for the same period in 2013, a decrease of \$4.2 million, or 18.4%. This was primarily attributable to decreases in amortization of other intangible assets from certain fully amortized assets, partially offset by incremental amortization of our newly acquired intangible assets.

Amortization of broadcast rights, excluding barter was \$8.9 million for the nine months ended September 30, 2014, compared to \$9.5 million for the same period in 2013, a decrease of \$0.6 million, or 6.7%, primarily attributable to nonrecurring adjustments to the net realizable value of broadcast rights during 2013, partially offset by incremental amortization from our newly acquired stations.

#### Interest Expense

Interest expense, net was \$46.0 million for the nine months ended September 30, 2014, compared to \$50.4 million for the same period in 2013, a decrease of \$4.3 million, or 8.6%. The decrease was primarily attributable to lower interest rates on the Company's outstanding debt as a result of refinancing the \$325.0 million 8.875% Notes into a combination of 6.875% Notes and borrowings under our and Mission's amended credit facilities during the fourth quarter of 2013. This decrease was partially offset by additional interest on increased borrowings during 2013 and 2014 to fund our and Mission's acquisitions.

#### Loss on extinguishment of debt

In 2014, the Company recognized \$0.1 million of loss on extinguishment of debt related to the Company's amendment to the terms of its Term Loan A Facilities and a \$3.2 million partial prepayment of outstanding principal balance therein. In 2013, Nexstar recognized \$1.0 million of loss on extinguishment of debt related to a \$10.4 million partial repurchase of the 8.875% Notes.

#### Income Taxes

Income tax expense was \$24.1 million for the nine months ended September 30, 2014, compared to \$8.8 million for the same period in 2013, an increase of \$15.3 million. The effective tax rates for the nine months ended September 30, 2014 and 2013 were 41.7% and 45.3%, respectively. The effective tax rate variance primarily relates to true-ups adjustments for 2012 tax return filings completed during 2013 and an overall reduction in the effective state tax rate from 2013 to 2014.

#### Liquidity and Capital Resources



We and Mission are highly leveraged, which makes the Company vulnerable to changes in general economic conditions. Our and Mission's ability to meet the future cash requirements described below depends on our and Mission's ability to generate cash in the future, which is subject to general economic, financial, competitive, legislative, regulatory and other conditions, many of which are beyond our and Mission's control. Based on current operations and anticipated future growth, we believe that our and Mission's available cash, anticipated cash flow from operations and available borrowings under the Nexstar and Mission senior secured credit facilities will be sufficient to fund working capital, capital expenditure requirements, interest payments and scheduled debt principal payments for at least the next twelve months. In order to meet future cash needs, we may, from time to time, borrow under our existing senior secured credit facilities or issue other long- or short-term debt or equity, if the market and the terms of our existing debt arrangements permit, and Mission may, from time to time, borrow under its existing senior secured credit facility. We will continue to evaluate the best use of Nexstar's operating cash flow among its capital expenditures, acquisitions and debt reduction.

## Overview

The following tables present summarized financial information management believes is helpful in evaluating the Company's liquidity and capital resources (in thousands):

|  | Nine Months Ended |              |
|--|-------------------|--------------|
|  | September 30,     |              |
|  | 2014              | 2013         |
| Net cash provided by operating activities            | \$ 120,642        | \$ 43,946    |
| Net cash used in investing activities                | (99,120 )         | (235,179)    |
| Net cash provided by financing activities            | 7,126             | 146,853      |
| Net increase (decrease) in cash and cash equivalents | \$ 28,648         | \$ (44,380 ) |
| Cash paid for interest                               | \$ 34,728         | \$ 36,901    |
| Cash paid for income taxes, net of refunds           | \$ 2,276          | \$ 2,143     |

|  | As of     | As of     |
|--|-----------|-----------|
|  | September | December  |
|  | 30,       | 31,       |
|  | 2014      | 2013      |
| Cash and cash equivalents  | \$ 68,676 | \$ 40,028 |
| Long-term debt including current portion   | 1,087,440 | 1,071,119 |
| Unused incremental term loan commitments under senior secured credit facilities <sup>(1)</sup> | 147,205   | 184,000   |
| Unused revolving loan commitments under senior secured credit facilities <sup>(1)</sup>        | 105,000   | 105,000   |

(1)Based on covenant calculations as of September 30, 2014, all of the \$105.0 million unused revolving loan commitments and \$147.2 million unused Term Loan A Facilities under the Nexstar and Mission senior secured credit facilities were available for borrowing.

## Cash Flows – Operating Activities

Net cash flows provided by operating activities increased by \$76.7 million during the nine months ended September 30, 2014 compared to the same period in 2013. This was primarily due to an increase in net revenue of \$74.3 million less an increase in station and corporate operating expenses (excluding stock compensation) of \$41.2 million, an increase in collections of accounts receivable of \$29.7 million, a \$2.2 million decrease in cash paid for interest, a \$1.9 million decrease in payments for broadcast rights, a \$0.9 million decrease in premium paid on partial repurchase of the 8.875% Notes during the third quarter of 2013 and \$1.2 million resulting from the timing of payments to vendors.

Cash paid for interest decreased by \$2.2 million during the nine months ended September 30, 2014 compared to the same period in 2013. The decrease was primarily attributable to lower interest rates on the Company's outstanding debt as a result of refinancing the 8.875% Notes into a combination of 6.875% Notes and borrowings under our and Mission's amended credit facilities during the fourth quarter of 2013. This decrease was partially offset by additional interest on increased borrowings during 2013 and 2014 to fund our and Mission's acquisitions of television stations.

## Cash Flows – Investing Activities

Net cash flows used in investing activities decreased by \$136.1 million during the nine months ended September 30, 2014 compared to the same period in 2013. In 2014, we completed the acquisitions of 3 television stations from

Citadel, 3 television stations and 2 satellite stations from Gray, the assets of IBS and the outstanding equity of ETG for total payments of \$82.1 million. In addition, Mission paid a \$3.2 million deposit to acquire KFQX pursuant to an amended purchase agreement. In 2013, we and Mission acquired 8 television stations and signed purchase agreements to acquire three television stations from Citadel for total payments of \$193.6 million. We also paid a \$27.0 million deposit upon signing the stock purchase agreement we and Mission entered into with CCA and White Knight in April 2013. Additionally, Mission paid a \$0.2 million deposit upon signing the asset purchase agreement Mission entered into with Stainless in September 2013.

Capital expenditures during the nine months ended September 30, 2014 decreased by \$0.5 million, compared to the same period in 2013 primarily due to capital expenditures for stations acquired between December 2012 and March 2013.

## Cash Flows – Financing Activities

Net cash flows provided by financing activities decreased by \$139.7 million during the nine months ended September 30, 2014 compared to the same period in 2013.

In 2014, we borrowed an additional \$25.0 million under our Term Loan A Facility to finance our acquisition of television stations from Gray TV. We also received \$1.3 million proceeds from stock option exercises and recognized a \$4.8 million excess tax benefit from stock-based compensation arrangements. These cash flow increases were partially offset by debt repayments of \$8.7 million outstanding principal under our and Mission's term loans, dividends to our Class A stockholders of \$13.8 million (\$0.15 per share each quarter) and payments for capital lease obligations of \$1.0 million.

In 2013, we and Mission borrowed a total of \$223.9 million in additional term loans and revolving loans under our and Mission's senior secured credit facilities to partially finance acquisitions, to partially fund the required deposit to acquire the stock of CCA and White Knight and for general corporate purposes. We also received \$6.2 million proceeds from stock option exercises and recognized a \$9.8 million excess tax benefit from stock-based compensation arrangements. These cash flow increases were partially offset by repayments of \$60.8 million outstanding obligations under our and Mission's senior secured facilities, partial repurchase of the 8.875% Notes of \$10.2 million, quarterly dividend payments to our Class A and Class B stockholders of \$10.7 million (\$0.12 per share each quarter), purchase of treasury stock for \$8.4 million and payments for debt financing costs of \$2.2 million.

Our senior secured credit facility may limit the amount of dividends we may pay to stockholders over the term of the agreement.

## Future Sources of Financing and Debt Service Requirements

As of September 30, 2014, we and Mission had total combined debt of \$1.1 billion, which represented 98.4% of Nexstar and Mission's combined capitalization. Our and Mission's high level of debt requires that a substantial portion of cash flow be dedicated to pay principal and interest on debt, which reduces the funds available for working capital, capital expenditures, acquisitions and other general corporate purposes.

The Company had \$105.0 million of total unused revolving loan commitments and \$147.2 million of total unused Term Loan A Facilities under its senior secured credit facilities, all of which were available for borrowing, based on the covenant calculations as of September 30, 2014. The Company's ability to access funds under its senior secured credit facilities depends, in part, on our compliance with certain financial covenants. Any additional drawings under the senior secured credit facilities will reduce our and Mission's future borrowing capacity and the amount of total unused revolving loan commitments and total unused Term Loan A Facilities.

The Company's cash on hand, cash generated prior to closing and borrowings under the Company's senior secured credit facilities are expected to be utilized to fund the \$243.0 million remaining purchase price for the acquisition of CCA as well as CCA's rights and obligations under certain operating agreements with White Knight, the \$79.0 million remaining purchase price to acquire stations from Grant, the \$15.1 million remaining purchase price to acquire stations from Stainless, the \$68.0 million purchase price to acquire a station from Meredith and SagamoreHill and the \$3.3 million remaining purchase price to acquire a station from Pappas. The Company expects the CCA and the Grant acquisitions to close in the fourth quarter of 2014. The Stainless, Meredith and SagamoreHill and Pappas acquisitions are expected to close in the first quarter of 2015. Simultaneous with the closing of acquisitions from CCA, Nexstar will sell 2 stations to Marshall for \$43.3 million and one station to BCB for \$26.9 million. Simultaneous with the closing of acquisitions from Grant, Nexstar will sell one station to Marshall for \$15.3 million. Marshall will finance the payment of purchase price to Nexstar through future credit transactions, which Nexstar has agreed to guarantee.

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On October 24, 2014, our Board of Directors declared a quarterly dividend of \$0.15 per share of our Class A common stock. The dividend is payable on November 21, 2014 to stockholders of record on November 7, 2014.

On October 31, 2014, we borrowed \$147.2 million under the Company's Term Loan A Facilities. The proceeds are expected to be utilized to partially fund the acquisition of stations from Grant and CCA.

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The following table summarizes the principal indebtedness scheduled to mature for the periods referenced as of September 30, 2014 (in thousands):

|  | Total       | Remainder<br>of 2014 | 2015-2016 | 2017-2018 | Thereafter |
|--|-------------|----------------------|-----------|-----------|------------|
| Nexstar senior secured credit facility | \$332,739   | \$ 1,405             | \$ 14,216 | \$ 66,248 | \$ 250,870 |
| Mission senior secured credit facility | 230,523     | 460                  | 4,171     | 4,670     | 221,222    |
| 6.875% senior unsecured notes due 2020 | 525,000     | -                    | -         | -         | 525,000    |
|  | \$1,088,262 | \$ 1,865             | \$ 18,387 | \$ 70,918 | \$ 997,092 |

We make semiannual interest payments on our \$525.0 million 6.875% Notes on May 15 and November 15 of each year. Interest payments on our and Mission's senior secured credit facilities are generally paid every one to three months and are payable based on the type of interest rate selected.

The terms of the Nexstar and Mission senior secured credit facilities, as well as the indentures governing our 6.875% Notes, limit, but do not prohibit us or Mission from incurring substantial amounts of additional debt in the future.

We do not have any rating downgrade triggers that would accelerate the maturity dates of our debt. However, a downgrade in our credit rating could adversely affect our ability to renew existing credit facilities, obtain access to new credit facilities or otherwise issue debt in the future and could increase the cost of such debt.

### Debt Covenants

Our senior secured credit facility contains covenants that require us to comply with certain financial ratios, including: (a) a maximum consolidated total net leverage ratio, (b) a maximum consolidated first lien net leverage ratio, and (c) a minimum consolidated fixed charge coverage ratio. The covenants, which are calculated on a quarterly basis, include the combined results of Nexstar Broadcasting and Mission. Mission's senior secured credit facility does not contain financial covenant ratio requirements; however, it does include an event of default if Nexstar does not comply with all covenants contained in its credit agreement. The 6.875% Notes contain restrictive covenants customary for borrowing arrangements of this type. We believe we and Mission will be able to maintain compliance with all covenants contained in the credit agreements governing our senior secured facilities and the indentures governing our respective notes for a period of at least the next twelve months from September 30, 2014.

### No Off-Balance Sheet Arrangements

As of September 30, 2014, we did not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or variable interest entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. All of our arrangements with Mission are on-balance sheet arrangements. Our variable interests in other entities are obtained through local service agreements, which have valid business purposes and transfer certain station activities from the station owners to us. We are, therefore, not materially exposed to any financing, liquidity, market or credit risk that could arise if we had engaged in such relationships.

### Critical Accounting Policies and Estimates

The Company's Condensed Consolidated Financial Statements have been prepared in accordance with U.S. GAAP, which require us 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 Condensed Consolidated Financial Statements and reported amounts of revenue and expenses during the period. On an ongoing basis, we evaluate our estimates, including those related to goodwill and intangible assets, bad debts, broadcast rights, trade and barter and income

taxes. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from those estimates. Results of operations for interim periods are not necessarily indicative of results for the full year.

Information with respect to our critical accounting policies which we believe could have the most significant effect on our reported results and require subjective or complex judgments by management is contained in our Annual Report on Form 10-K for the year ended December 31, 2013. Management believes that as of September 30, 2014 there has been no material change to this information.

#### Recent Accounting Pronouncements

Refer to Note 2 of our Condensed Consolidated Financial Statements in Part I, Item 1 of this Quarterly Report on Form 10-Q for a discussion of recently issued accounting pronouncements, including our expected date of adoption and effects on results of operations and financial position.

### Cautionary Note Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q contains “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. All statements other than statements of historical fact are “forward-looking statements” for purposes of federal and state securities laws, including: any projections or expectations of earnings, revenue, financial performance, liquidity and capital resources or other financial items; any assumptions or projections about the television broadcasting industry; any statements of our plans, strategies and objectives for our future operations, performance, liquidity and capital resources or other financial items; any statements concerning proposed new products, services or developments; any statements regarding future economic conditions or performance; any statements of belief; and any statements of assumptions underlying any of the foregoing. Forward-looking statements may include the words “may,” “will,” “should,” “could,” “would,” “predicts,” “potential,” “continue,” “expects,” “anticipates,” “future,” “intends,” “plans,” “believes,” “estimates” and similar words.

Although we believe that the expectations reflected in any of our forward-looking statements are reasonable, actual results could differ from this projection or assumption in any of our forward-looking statements. Our future financial position and results of operations, as well as any forward-looking statements, are subject to change and inherent risks and uncertainties, including those described in our Annual Report on Form 10-K for the year ended December 31, 2013 and in our other filings with the Securities and Exchange Commission. The forward-looking statements made in this Quarterly Report on Form 10-Q are made only as of the date hereof, and we do not have or undertake any obligation to update any forward-looking statements to reflect subsequent events or circumstances unless otherwise required by law.

### ITEM 3. Quantitative and Qualitative Disclosures About Market Risk Interest Rate Risk

Our exposure to market risk for changes in interest rates relates primarily to our long-term debt obligations.

The term loan borrowings at September 30, 2014 under the Company’s senior secured credit facilities bear interest rates ranging from 2.4% to 3.8%, which represented the base rate, or LIBOR, plus the applicable margin, as defined. The revolving loans bear interest at LIBOR plus the applicable margin, which totaled 2.4% at September 30, 2014. Interest is payable in accordance with the credit agreements.

If LIBOR were to increase by 100 basis points, or one percentage point, from its September 30, 2014 level, the Company’s annual interest expense would increase and cash flow from operations would decrease by approximately \$1.5 million, based on the outstanding balances of the Company’s senior secured credit facilities as of September 30, 2014. Due to the LIBOR floor on certain of our term loans, an increase of 50 basis points in LIBOR would result in a \$0.4 million increase in annual interest expense and decrease in cash flow from operations. If LIBOR were to decrease either by 100 basis points or 50 basis points, the Company’s annual interest would decrease and cash flow from operations would increase by \$0.1 million. Our 6.875% Notes are fixed rate debt obligations and therefore are not exposed to market interest rate changes. As of September 30, 2014, we have no financial instruments in place to hedge against changes in the benchmark interest rates on the Company’s senior secured credit facilities.

### Impact of Inflation

We believe that our results of operations are not affected by moderate changes in the inflation rate.





ITEM 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Nexstar's management, with the participation of its President and Chief Executive Officer along with its Chief Financial Officer, conducted an evaluation as of the end of the period covered by this report of the effectiveness of the design and operation of Nexstar's disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934.

Based upon that evaluation, Nexstar's President and Chief Executive Officer and its Chief Financial Officer concluded that as of the end of the period covered by this report, Nexstar's disclosure controls and procedures were effective in ensuring that information required to be disclosed in the reports that it files or submits under the Securities Exchange Act of 1934 (i) is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and (ii) is accumulated and communicated to Nexstar's management, including its President and Chief Executive Officer and its Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

As of the quarter ended September 30, 2014, there have been no changes in Nexstar's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. Legal Proceedings

From time to time, Nexstar and Mission are involved in litigation that arises from the ordinary operations of business, such as contractual or employment disputes or other general actions. In the event of an adverse outcome of these proceedings, Nexstar and Mission believe the resulting liabilities would not have a material adverse effect on Nexstar's and Mission's financial condition or results of operations.

ITEM 1A. Risk Factors

There are no material changes from the risk factors previously disclosed in Part I, Item 1A in our Annual Report on Form 10-K for the year ended December 31, 2013, except those reported in our Quarterly Report on Form 10-Q for the period ended March 31, 2014 to which there have been no material changes.

ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

ITEM 3. Defaults Upon Senior Securities

None.

ITEM 4. Mine Safety Disclosures

None.

ITEM 5. Other Information

The unaudited financial statements of Mission Broadcasting, Inc. as of September 30, 2014 and December 31, 2013 and for the three and nine months ended September 30, 2014 and 2013, as filed in Mission Broadcasting, Inc.'s Quarterly Report on Form 10-Q, are incorporated herein by reference.

## ITEM 6. Exhibits

| Exhibit No. | Description  |
|-------------|--|
| 10.1        | Letter dated September 15, 2014, notifying Mission Broadcasting, Inc. of the election to extend the Agreement for the Sale of Commercial Time (KODE)*  |
| 10.2        | Letter dated September 15, 2014, notifying Mission Broadcasting, Inc. of the election to extend the Agreement for the Sale of Commercial Time (WYOU)*  |
| 10.3        | Letter dated October 15, 2014, notifying Mission Broadcasting, Inc. of the election to extend Shared Services Agreement and Agreement for the Sale of Commercial Time (WTVO)*  |
| 10.4        | Letter dated May 28, 2014, notifying Mission Broadcasting, Inc. of the election to extend Shared Services Agreement and Agreement for the Sale of Commercial Time (KSAN) (Incorporated by reference to Exhibit 10.1 to Quarterly Report on Form 10-Q for the period ended June 30, 2014 (File No. 333-62916-02) filed by Mission Broadcasting, Inc.) |
| 31.1        | Certification of Perry A. Sook pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*   |
| 31.2        | Certification of Thomas E. Carter pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*  |
| 32.1        | Certification of Perry A. Sook pursuant to 18 U.S.C. ss. 1350.*  |
| 32.2        | Certification of Thomas E. Carter pursuant to 18 U.S.C. ss. 1350.*   |
| 101         | The Company's unaudited Condensed Consolidated Financial Statements and related Notes for the quarter ended September 30, 2014 from this Quarterly Report on Form 10-Q, formatted in XBRL (eXtensible Business Reporting Language).*   |

\* Filed herewith

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

NEXSTAR BROADCASTING GROUP, INC.

/S/ PERRY A. SOOK

By: Perry A. Sook

Its: President and Chief Executive Officer (Principal Executive Officer)

/S/ THOMAS E. CARTER

By: Thomas E. Carter

Its: Chief Financial Officer (Principal Accounting and Financial Officer)

Dated: November 7, 2014