NEXSTAR MEDIA GROUP, INC.
Form 10-Q
November 08, 2018

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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, 2018

OR

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

For the transition period from to .

Commission File Number: 000-50478

NEXSTAR MEDIA GROUP, INC.

(Exact Name of Registrant as Specified in Its Charter)

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

(972) 373-8800

(Registrant’s Telephone Number, Including Area Code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that it was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

| | |
|---|---|
| Large accelerated filer | Accelerated filer |
| Non-accelerated filer | Smaller reporting company |

Emerging growth company

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

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

As of November 8, 2018, the registrant had 45,612,436 shares of Class A Common Stock outstanding.

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**PART I. FINANCIAL INFORMATION**

**ITEM 1.** Financial Statements
NEXSTAR MEDIA GROUP, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except share information, unaudited)

| | September 30, 2018 | December 31, 2017 |
|---|---|---|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | $118,423 | $115,652 |
| Accounts receivable, net of allowance for doubtful accounts of $15,101 and $13,358, respectively | 551,728 | 562,943 |
| Spectrum asset | 52,002 | 305,764 |
| Prepaid expenses and other current assets | 44,334 | 71,859 |
| Total current assets | 766,487 | 1,056,218 |
| Property and equipment, net | 723,869 | 734,138 |
| Goodwill | 2,187,338 | 2,142,846 |
| FCC licenses | 1,772,039 | 1,767,638 |
| Other intangible assets, net | 1,527,699 | 1,581,626 |
| Other noncurrent assets, net | 141,684 | 199,181 |
| Total assets(1) | $7,119,116 | $7,481,647 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Current portion of debt | $42,089 | $92,808 |
| Accounts payable | 74,234 | 31,136 |
| Accrued expenses | 150,973 | 175,940 |
| Interest payable | 28,217 | 39,563 |
| Liability to surrender spectrum asset | 52,002 | 314,087 |
| Other current liabilities | 19,774 | 17,169 |
| Total current liabilities | 367,289 | 670,703 |
| Debt | 4,105,922 | 4,269,652 |
| Deferred tax liabilities | 639,827 | 619,441 |
| Other noncurrent liabilities | 254,102 | 340,541 |
| Total liabilities(1) | $5,367,140 | $5,900,337 |
| Commitments and contingencies (Note 12) | | |
| Stockholders' equity: | | |
| Preferred stock - $0.01 par value, 200,000 shares authorized; none issued and outstanding at each of September 30, 2018 and December 31, 2017 | - | - |
| Class A Common stock - $0.01 par value, 100,000,000 shares authorized; 47,291,463 shares issued, | 473 | 473 |

| | | |
|---|---|---|
| 45,603,310 shares outstanding as of September 30, 2018 and 47,291,463 shares issued, 45,966,414 shares | | |
| outstanding as of December 31, 2017 | | |
| Class B Common stock - $0.01 par value, 20,000,000 shares authorized; none issued and outstanding | | |
| at each of September 30, 2018 and December 31, 2017 | - | - |
| Class C Common stock - $0.01 par value, 5,000,000 shares authorized; none issued and | | |
| outstanding at each of September 30, 2018 and December 31, 2017 | - | - |
| Additional paid-in capital | 1,344,130 | 1,342,541 |
| Accumulated other comprehensive income | 6,140 | 6,140 |
| Retained earnings | 484,367 | 299,523 |
| Treasury stock - at cost; 1,688,153 and 1,325,049 shares at September 30, 2018 and December 31, 2017, respectively | (107,037 ) | (78,063 ) |
| Total Nexstar Media Group, Inc. stockholders' equity | 1,728,073 | 1,570,614 |
| Noncontrolling interests in consolidated variable interest entities | 23,903 | 10,696 |
| Total stockholders' equity | 1,751,976 | 1,581,310 |
| Total liabilities and stockholders' equity | $7,119,116 | $7,481,647 |

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

(1) The consolidated total assets as of September 30, 2018 and December 31, 2017 include certain assets held by consolidated variable interest entities (“VIEs”) of $396.0 million and $426.9 million, respectively, which are not available to be used to settle the obligations of Nexstar. The consolidated total liabilities as of September 30, 2018 and December 31, 2017 include certain liabilities of consolidated VIEs of $43.6 million and $81.8 million, respectively, for which the creditors of the VIEs have no recourse to the general credit of Nexstar. See Note 2 for additional information.

**NEXSTAR MEDIA GROUP, INC.**

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share information, unaudited)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Net revenue | $693,015 | $611,870 | $1,968,674 | $1,778,302 |
| Operating expenses (income): | | | | |
| Direct operating expenses, excluding depreciation and amortization | 285,363 | 257,656 | 838,765 | 728,995 |
| Selling, general and administrative expenses, excluding depreciation and amortization | 140,297 | 140,464 | 421,105 | 464,838 |
| Amortization of broadcast rights | 15,021 | 27,869 | 47,034 | 78,022 |
| Amortization of intangible assets | 37,157 | 33,986 | 110,640 | 120,701 |
| Depreciation | 27,673 | 25,979 | 78,577 | 74,497 |
| Reimbursement from the FCC related to station repack | (5,389) | - | (12,450) | - |
| Gain on disposal of stations, net | - | - | - | (57,716) |
| Total operating expenses | 500,122 | 485,954 | 1,483,671 | 1,409,337 |
| Income from operations | 192,893 | 125,916 | 485,003 | 368,965 |
| Interest expense, net | (56,237) | (53,605) | (167,107) | (188,527) |
| Loss on extinguishment of debt | (3,159) | (1,221) | (4,645) | (34,348) |
| Pension and other postretirement plans credit, net | 2,458 | 3,156 | 8,358 | 8,943 |
| Other expenses | (884) | (161) | (1,823) | (1,168) |
| Income before income taxes | 135,071 | 74,085 | 319,786 | 153,865 |
| Income tax expense | (35,243) | (32,013) | (86,011) | (58,394) |
| Net income | 99,828 | 42,072 | 233,775 | 95,471 |
| Net loss attributable to noncontrolling interests | 686 | 4,403 | 2,593 | 1,045 |
| Net income attributable to Nexstar Media Group, Inc. | $100,514 | $46,475 | $236,368 | $96,516 |
| | | | | |
| Net income per common share attributable to Nexstar Media Group, Inc.: | | | | |
| Basic | $2.21 | $1.01 | $5.17 | $2.11 |
| Diluted | $2.12 | $0.98 | $4.99 | $2.05 |
| | | | | |
| Weighted average number of common shares outstanding: | | | | |
| Basic | 45,552 | 46,107 | 45,751 | 45,753 |
| Diluted | 47,338 | 47,452 | 47,388 | 47,029 |

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

**NEXSTAR MEDIA GROUP, INC.**

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

For the Three Months Ended September 30, 2018 and 2017

(in thousands, except share information, unaudited)

| | Class A Common Stock | | Additional Paid-In Capital | Retained Earnings | Accumulated Other Comprehensive Income | Treasury Stock | | Nonc intere |
|---|---|---|---|---|---|---|---|---|
| | Shares | Amount | | | | Shares | Amount | |
| Balances as of June 30, 2018 | 47,291,463 | $473 | $1,337,738 | $400,934 | $6,140 | (1,769,428) | $(111,846) | $9,01 |
| Stock-based compensation expense | - | - | 8,212 | - | - | - | - | - |
| Vesting of restricted stock units and exercise of stock options | - | - | (1,820) | - | - | 81,275 | 4,809 | - |
| Common stock dividends declared | - | - | - | (17,081) | - | - | - | - |
| Consolidation of a variable interest entity | - | - | - | - | - | - | - | 15,5 |
| Net income (loss) | - | - | - | 100,514 | - | - | - | (68 |
| Balances as of September 30, 2018 | 47,291,463 | $473 | $1,344,130 | $484,367 | $6,140 | (1,688,153) | $(107,037) | $23,9 |
| | | | | | | | | |
| Balances as of June 30, 2017 | 47,291,463 | $473 | $1,380,035 | $(125,433) | - | (1,073,339) | $(64,763) | $13,234 |
| Purchase of treasury stock | - | - | - | - | - | (687,492) | (40,714) | - |
| Stock-based compensation expense | - | - | 6,203 | - | - | - | - | - |
| Vesting of restricted stock units and exercise of stock options | - | - | (1,688) | - | - | 25,495 | 2,249 | - |
| Common stock dividends declared | - | - | (13,864) | - | - | - | - | - |
| Contribution from a noncontrolling interest | - | - | - | - | - | - | - | 659 |
| Net income (loss) | - | - | - | 46,475 | - | - | - | (4,403) |
| Balances as of September 30, 2017 | 47,291,463 | $473 | $1,370,686 | $(78,958) | $- | (1,735,336) | $(103,228) | $9,490 |

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

**NEXSTAR MEDIA GROUP, INC.**

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

For the Nine Months Ended September 30, 2018 and 2017

(in thousands, except share information, unaudited)

| | Class A Common Stock Shares | Amount | Additional Paid-In Capital | Retained Earnings | Accumulated Other Comprehensive Income | Treasury Stock Shares | Amount | Nonc intere |
|---|---|---|---|---|---|---|---|---|
| Balances as of December 31, 2017 | 47,291,463 | $473 | $1,342,541 | $299,523 | $6,140 | (1,325,049) | $(78,063) | $10,6 |
| Purchase of treasury stock | - | - | - | - | - | (751,920) | (50,524) | - |
| Stock-based compensation expense | - | - | 22,807 | - | - | - | - | - |
| Vesting of restricted stock units and exercise of stock options | - | - | (21,218) | - | - | 388,816 | 21,550 | - |
| Common stock dividends declared | - | - | - | (51,524) | - | - | - | - |
| Consolidation of a variable interest entity | - | - | - | - | - | - | - | 15,5 |
| Contribution from a noncontrolling interest | - | - | - | - | - | - | - | 226 |
| Net income (loss) | - | - | - | 236,368 | - | - | - | (2,5 |
| Balances as of September 30, 2018 | 47,291,463 | $473 | $1,344,130 | $484,367 | $6,140 | (1,688,153) | $(107,037) | $23,9 |
| | | | | | | | | |
| Balances as of December 31, 2016 | 31,621,369 | $316 | $386,921 | $(176,583) | - | (876,744) | $(41,513) | $115,213 |
| Adjustment to adopt ASU 2016-16 | - | - | - | 764 | - | - | - | - |
| Issuance/reissuance of stock in connection with a merger | 15,670,094 | 157 | 1,007,956 | - | - | 560,316 | 23,330 | - |
| Stock option replacement awards in connection with a merger | - | - | 10,702 | - | - | - | - | - |
| Purchase of treasury stock | - | - | - | - | - | (1,689,132) | (99,008) | - |
| Stock-based compensation expense | - | - | 17,512 | - | - | - | - | - |
| Vesting of restricted stock units and exercise of stock options | - | - | (10,273) | - | - | 270,224 | 13,963 | - |
| Common stock dividends declared | - | - | (42,132) | - | - | - | - | - |
| Purchase of noncontrolling interests from variable interest entities | - | - | - | - | - | - | - | (108,69 |
| Consolidation of variable interest entities | - | - | - | - | - | - | - | 7,600 |
| Deconsolidation of a variable interest entity | - | - | - | 345 | - | - | - | (4,000 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Distribution to a noncontrolling interest | - | - | - | - | - | - | - | (243 |
| Contribution from a noncontrolling interest | - | - | - | - | - | - | - | 659 |
| Net income (loss) | - | - | - | 96,516 | - | - | - | (1,045 |
| Balances as of September 30, 2017 | 47,291,463 | $473 | $1,370,686 | $(78,958 ) | $- | (1,735,336 ) | $(103,228 ) | $9,490 |

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

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NEXSTAR MEDIA GROUP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands, unaudited)

| | Nine Months Ended September 30, | |
|---|---|---|
| | 2018 | 2017 |
| Cash flows from operating activities: | | |
| Net income | $233,775 | $95,471 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Provision for bad debt | 8,301 | 6,152 |
| Amortization of broadcast rights, excluding barter | 47,034 | 47,099 |
| Depreciation of property and equipment | 78,577 | 74,497 |
| Amortization of intangible assets | 110,640 | 120,701 |
| Loss (gain) on asset disposal, net | 1,116 | (56,220) |
| Amortization of debt financing costs and debt discounts | 7,663 | 7,809 |
| Loss on extinguishment of debt | 4,645 | 34,348 |
| Stock-based compensation expense | 22,807 | 17,512 |
| Deferred income taxes | 12,095 | 10,455 |
| Payments for broadcast rights | (47,652) | (46,370) |
| Non-cash compensation expense related to an acquisition's contingent consideration | 1,933 | - |
| Payments for contingent consideration in connection with an acquisition | - | (4,044) |
| Other noncash credits, net | (1,749) | (3,105) |
| Changes in operating assets and liabilities, net of acquisitions and dispositions: | | |
| Accounts receivable | 29,152 | (7,076) |
| Prepaid expenses and other current assets | 3,419 | 7,251 |
| Other noncurrent assets | 481 | 1,240 |
| Accounts payable, accrued expenses and other current liabilities | (3,070) | (29,194) |
| Taxes payable | 13,512 | (178,528) |
| Interest payable | (11,346) | (28,731) |
| Other noncurrent liabilities | (11,669) | (6,103) |
| Net cash provided by operating activities | 499,664 | 63,164 |
| Cash flows from investing activities: | | |
| Purchases of property and equipment | (63,586) | (48,846) |
| Deposits and payments for acquisitions, net of cash acquired | (103,246) | (2,971,194) |
| Proceeds from sale of stations | - | 481,944 |
| Proceeds received to relinquish spectrum asset | - | 478,608 |
| Proceeds from disposals of property and equipment | 4,282 | 16,449 |
| Proceeds received from settlement of corporate-owned life insurance policies | 812 | 834 |
| Net cash used in investing activities | (161,738) | (2,042,205) |
| Cash flows from financing activities: | | |
| Proceeds from long-term debt, net of debt discounts | 101,387 | 3,533,981 |
| Repayments of long-term debt | (327,489) | (1,891,750) |
| Premium paid on debt extinguishment | - | (18,050) |
| Payments for debt financing costs | (137) | (52,039) |

| | | |
|---|---|---|
| Contributions from a noncontrolling interest, net | 226 | 416 |
| Purchase of treasury stock | (50,524 ) | (99,008 ) |
| Proceeds from exercise of stock options | 5,184 | 3,863 |
| Common stock dividends paid | (51,524 ) | (42,132 ) |
| Purchase of noncontrolling interests | - | (66,901 ) |
| Payments for contingent consideration in connection with acquisitions | - | (259,603 ) |
| Cash paid for shares withheld for taxes | (4,852 ) | (4,031 ) |
| Payments for capital lease obligations | (7,426 ) | (5,383 ) |
| Net cash (used in) provided by financing activities | (335,155 ) | 1,099,363 |
| Net increase (decrease) in cash, cash equivalents and restricted cash | 2,771 | (879,678 ) |
| Cash, cash equivalents and restricted cash at beginning of period | 115,652 | 1,015,479 |
| Cash, cash equivalents and restricted cash at end of period | $118,423 | $135,801 |
| Supplemental information: | | |
| Interest paid | $170,790 | $200,875 |
| Income taxes paid, net of refunds | $59,082 | $221,257 |
| Non-cash investing and financing activities: | | |
| Accrued purchases of property and equipment | $18,208 | $1,594 |
| Noncash purchases of property and equipment | $- | $19,058 |
| Consolidation of a variable interest entity | $15,573 | $- |
| Debt assumed in connection with a merger | $- | $434,269 |
| Issuance/reissuance of Class A Common Stock in connection with a merger | $- | $1,031,443 |
| Stock option replacement awards in connection with a merger | $- | $10,702 |
| Relinquishment of spectrum asset and derecognition of liability to surrender spectrum asset | $314,086 | $- |
| Contingent consideration payable in connection with a merger | $- | $13,616 |

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

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NEXSTAR MEDIA GROUP, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 1. Organization and Business Operations

As of September 30, 2018, Nexstar Media Group, Inc. and its wholly-owned subsidiaries ("Nexstar") owned, operated, programmed or provided sales and other services to 171 full power television stations, including those owned by VIEs, in 100 markets in the states of Alabama, Arizona, Arkansas, California, Colorado, Connecticut, Florida, Georgia, Hawaii, Illinois, Indiana, Iowa, Kansas, Louisiana, Maryland, Massachusetts, Michigan, Mississippi, Missouri, Montana, Nevada, New Mexico, New York, North Carolina, North Dakota, Ohio, Oregon, Pennsylvania, Rhode Island, South Carolina, South Dakota, Tennessee, Texas, Utah, Vermont, Virginia, West Virginia and Wisconsin. The stations are affiliates of ABC, NBC, FOX, CBS, The CW, MNTV and other broadcast television networks. Through various local service agreements, Nexstar provided sales, programming, and other services to 38 full power television stations owned and/or operated by independent third parties.

## 2. Summary of Significant Accounting Policies

### Principles of Consolidation

The Condensed Consolidated Financial Statements include the accounts of Nexstar and the accounts of independently-owned VIEs for which Nexstar is the primary beneficiary (See Note 2—Variable Interest Entities). Nexstar and the consolidated VIEs are collectively referred to as the "Company." Noncontrolling interests represent the VIE owners' share of the equity in the consolidated VIEs and are presented as a component separate from Nexstar Media Group, Inc. stockholders' equity. All intercompany account balances and transactions have been eliminated in consolidation. Nexstar management evaluates each arrangement that may include variable interests and determines the need to consolidate an entity where it determines Nexstar is the primary beneficiary of a VIE in accordance with related authoritative literature and interpretive guidance. On August 1, 2018, Nexstar began providing programming and sales services to KRBK, the television station owned by KRBK, LLC. Nexstar became the primary beneficiary of its variable interest in this station and the station's remaining assets were consolidated into Nexstar's financial statements as of this date. See Note 2—Variable Interest Entities for additional information.

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

| | September 30, 2018 | December 31, 2017 |
|---|---|---|
| Current assets | | |

| | | |
|---|---|---|
| Spectrum asset | $ - | $ 26,695 |
| Other current assets | 18,412 | 22,038 |
| Total current assets | 18,412 | 48,733 |
| Property and equipment, net | 10,907 | 7,517 |
| Goodwill | 123,918 | 130,362 |
| FCC licenses | 156,209 | 151,808 |
| Other intangible assets, net | 82,641 | 81,916 |
| Other noncurrent assets, net | 3,864 | 6,543 |
| Total assets | $ 395,951 | $ 426,879 |
| | | |
| Current Liabilities | | |
| Liability to surrender spectrum asset | $ - | $ 27,347 |
| Other current liabilities | 16,239 | 24,146 |
| Total current liabilities | 16,239 | 51,493 |
| Noncurrent liabilities | 27,401 | 30,339 |
| Total liabilities | $ 43,640 | $ 81,832 |

Liquidity

Nexstar is 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, 2018 and for the three and nine months ended September 30, 2018 and 2017 are unaudited. However, in the opinion of management, such financial statements include all adjustments (consisting solely of normal recurring adjustments) necessary for the fair statement of the financial information included herein in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") and pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC"). The preparation of the Condensed Consolidated Financial Statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenue and expenses during the period. Actual results could differ from those estimates. Results of operations for interim periods are not necessarily indicative of results for the full year. These Condensed Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and related Notes included in Nexstar's Annual Report on Form 10-K for the year ended December 31, 2017. The balance sheet as of December 31, 2017 has been derived from the audited financial statements as of that date but does not include all of the information and footnotes required by U.S. GAAP for complete financial statements.

Variable Interest Entities

The Company may determine that an entity is a VIE as a result of local service agreements entered into with an entity. The term local service agreement generally refers to a contract between two separately owned television stations serving the same market, whereby the owner-operator of one station contracts with the owner-operator of the other station to provide it with administrative, sales and other services required for the operation of its station. Nevertheless, the owner-operator of each station retains control and responsibility for the operation of its station, including ultimate responsibility over all programming broadcast on its station. A local service agreement can be (1) a time brokerage agreement ("TBA") or a local marketing agreement ("LMA") which allows Nexstar to program most of a station's broadcast time, sell the station's advertising time and retain the advertising revenue generated in exchange for monthly payments, based on the station's monthly operating expenses, (2) a shared services agreement ("SSA") which allows the Nexstar station in the market to provide services including news production, technical maintenance and security, in exchange for Nexstar's right to receive certain payments as described in the SSA, or (3) a joint sales agreement ("JSA") which permits Nexstar to sell certain of the station's advertising time and retain a percentage of the related revenue, as described in the JSA.

Consolidated VIEs

Nexstar consolidates entities in which Nexstar is deemed under U.S. GAAP to have controlling financial interests for financial reporting purposes as a result of (1) local service agreements Nexstar has with the stations owned by these entities, (2) Nexstar's guarantees of the obligations incurred under certain VIEs' senior secured credit facilities (see Note 7), (3) Nexstar having power over significant activities affecting these VIEs' economic performance, including budgeting for advertising revenue, certain advertising sales and, in some cases, hiring and firing of sales force personnel and (4) purchase options granted by each VIE, exclusive of Marshall Broadcasting Group, Inc. ("Marshall"), which permit Nexstar to acquire the assets and assume the liabilities of each of the VIEs' stations, subject to Federal Communications Commission ("FCC") consent.

In connection with an agreement to acquire KRBK from KRBK, LLC, Nexstar began providing programming and sales services to the station effective August 1, 2018. The TBA will terminate upon Nexstar's completion of its acquisition of KRBK but will continue if the transaction cannot be completed for reasons beyond the control of Nexstar and the seller. Nexstar evaluated its business arrangement with KRBK, LLC and determined that it has a variable interest in KRBK. Nexstar also 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, selling advertising, and oversight and control of sales management personnel. Thus, Nexstar consolidated KRBK as of August 1, 2018 under authoritative guidance related to the consolidation of VIEs. On October 17, 2018, Nexstar received approval from the FCC to acquire the remaining assets of KRBK. On November 1, 2018, Nexstar paid the remaining purchase price to the seller and completed the acquisition. See Note 3 for additional information.

The following table summarizes the various local service agreements Nexstar had in effect as of September 30, 2018 with its consolidated VIEs:

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

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

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

| | September 30, 2018 | December 31, 2017 |
|---|---|---|
| Current assets: | | |
| Cash and cash equivalents | $ 11,138 | $ 17,180 |
| Accounts receivable, net | 24,692 | 24,407 |
| Spectrum asset | - | 26,695 |
| Prepaid expenses and other current assets | 4,015 | 6,762 |
| Total current assets | 39,845 | 75,044 |
| Property and equipment, net | 30,526 | 25,971 |
| Goodwill | 157,105 | 163,549 |
| FCC licenses | 156,209 | 151,808 |
| Other intangible assets, net | 96,876 | 97,757 |
| Other noncurrent assets, net | 8,100 | 9,443 |
| Total assets | $ 488,661 | $ 523,572 |
| | | |
| Current liabilities: | | |

| | | |
|---|---|---|
| Current portion of debt | $ 5,846 | $ 56,565 |
| Interest payable | 1,031 | 994 |
| Liability to surrender spectrum asset | - | 27,347 |
| Other current liabilities | 16,239 | 24,146 |
| Total current liabilities | 23,116 | 109,052 |
| Debt | 293,289 | 245,523 |
| Other noncurrent liabilities | 27,401 | 30,594 |
| Total liabilities | $ 343,806 | $ 385,169 |

***Non-Consolidated VIEs***

Nexstar has an outsourcing agreement with Cunningham Broadcasting Corporation ("Cunningham"), which continues through December 30, 2020. Under the outsourcing agreement, Nexstar provides certain engineering, production, sales and administrative services for WYZZ, the FOX affiliate in the Peoria, Illinois market, through WMBD, the Nexstar television station in that market. During the term of the outsourcing agreement, Nexstar retains the broadcasting revenue and related expenses of WYZZ and is obligated to pay a monthly fee to Cunningham based on the combined operating cash flow of WMBD and WYZZ, as defined in the agreement.

In connection with an agreement to acquire WHDF from Huntsville TV, LLC ("Huntsville TV"), Nexstar began providing programming and sales services to WHDF effective July 15, 2018. The TBA will terminate upon Nexstar's completion of its acquisition of WHDF or if the transaction cannot be completed for reasons beyond the control of Nexstar and the seller. On October 17, 2018, Nexstar received approval from the FCC to acquire the remaining assets of WHDF. See Note 3 for additional information.

Nexstar has determined that it has variable interests in WYZZ and WHDF. Nexstar has evaluated its arrangements with Cunningham and Huntsville TV and has determined that, as of September 30, 2018, it is not the primary beneficiary of the variable interests in the stations because it does not have the ultimate power to direct the activities that most significantly impact the stations' economic performance, including developing the annual operating budget, programming and oversight and control of sales management personnel. Therefore, as of September 30, 2018, Nexstar has not consolidated WYZZ and WHDF under authoritative guidance related to the consolidation of VIEs. Under the local service agreements for WYZZ and WHDF, Nexstar pays for certain operating expenses, and therefore may have unlimited exposure to any potential operating losses. Nexstar's management believes that Nexstar's minimum exposure to loss under the WYZZ and WHDF agreements consists of the fees paid to Cunningham and monthly payments to Huntsville TV. Additionally, Nexstar indemnifies the owners of Cunningham and Huntsville TV from and against all liability and claims arising out of or resulting from Nexstar's activities, acts or omissions in connection with the agreements. The maximum potential amount of future payments Nexstar could be required to make for such indemnification is undeterminable at this time. There were no significant transactions arising from Nexstar's agreements with Cunningham and Huntsville TV.

Revenue Recognition

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

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

The stations' advertising contracts are short-term in nature and include a number of spots that are delivered over the term of the arrangement. For broadcast of commercials (local, national and political advertising), the performance obligation is identified at the contract level as it represents a station's promise to deliver an agreed number of spots, an agreed price per spot and other specifications. Each performance obligation is satisfied over time as the advertiser receives and consumes benefits when a station airs the advertiser's commercial. For digital advertising, the performance obligation is a station's promise to place an advertisement in its website and is satisfied either based on impressions or the placement of ads over an agreed period of time. Advertising revenue is recognized, for the amount the Company is entitled to receive, when the advertisements are broadcast on its stations or delivered on the stations' websites.

The Company's retransmission consent agreements with MVPDs generally have a three-year term and provide revenue based on a monthly amount the Company is entitled to receive per subscriber. Under ASC 606, these revenues are considered arising from the licensing of functional intellectual property. As such, the Company applies the exception for sales- or usage-based royalty for the accounting of variable consideration and recognizes revenue (retransmission compensation) at the point in time the broadcast signal is delivered to the MVPDs. The MVPDs report their subscriber numbers to the Company on a 30- to 60-day lag, which coincides with their payment of the fees due to the Company. Prior to receiving the report from the MVPDs, the Company records revenue based on estimated number of subscribers and the monthly amount the Company is entitled to receive per subscriber. The impact of the lag in the number of subscribers is not significant.

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

The Company trades certain advertising time for various goods and services. These transactions are short-term in nature and are recorded at the estimated fair value of the goods or services received. Revenue from trade transactions is recognized when the related advertisement spots are broadcast. The Company recorded $4.2 million and $11.0 million of trade revenue during the three and nine months ended September 30, 2018, respectively, and $3.0 million and $8.8 million of trade revenue during the three and nine months ended September 30, 2017, respectively.

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

Effective on January 1, 2018, the Company no longer recognizes barter revenue (and the related barter expense) resulting from the exchange of advertising time for certain program material. During the three months ended September 30, 2017, barter revenue (and the related barter expense) were $10.8 million. During the nine months ended September 30, 2017, barter revenue (and the related barter expense) were $30.9 million. Barter expense was included in amortization of broadcast rights in the accompanying Condensed Consolidated Statement of Operations. As of December 31, 2017, the current barter assets (and the related current barter liabilities) were $9.7 million, and the noncurrent barter assets (and the related noncurrent barter liabilities) were $12.5 million. On January 1, 2018, the Company recorded an adjustment to remove the offsetting balances of barter assets and barter liabilities.

Under the Company's historical accounting policy prior to the adoption of ASC 606, barter revenue (and the related barter expense) would have been $9.9 million during the three months ended September 30, 2018, and barter revenue (and the related barter expense) would have been $31.2 million during the nine months then ended. In addition, the current barter assets (and the related current barter liabilities) would have been $9.3 million, and the noncurrent barter assets (and the related noncurrent barter liabilities) would have been $10.1 million as of September 30, 2018.

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

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

The Company's contract liabilities, which are reflected in its Consolidated Financial Statements as accrued expenses and other liabilities, consist primarily of customer payments for products or services received before the transfer of control to the customer occurs (deferred revenue). The Company's performance obligations related to contract liabilities of $5.4 million as of January 1, 2018 were recognized as revenue during the first quarter of 2018. The Company's performance obligations related to contract liabilities of $9.5 million as of September 30, 2018 are expected to be recognized as revenue in the fourth quarter of 2018.

See Note 13 for disaggregated revenue information.

Financial Instruments

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

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

Pension Plans and Postretirement Benefits

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

As discussed under Recent Accounting Pronouncements, as of January 1, 2018, the Company adopted ASU No. 2017-07 and ASU No. 2016-15. Under ASU No. 2017-07, entities are required to (1) disaggregate the current-service-cost component from the other components of net benefit cost (the "other components") and present such current-service-costs in the same income statement line item as other compensation costs for services rendered by the pertinent employees during the period and (2) present the other components in the income statement separately from the service cost component and outside the subtotal of income from operations. The Company had no service costs during the three and nine months ended September 30, 2018 and 2017. In accordance with this adoption, the net periodic benefit cost, which consists of interest costs and expected return on plan assets, is disclosed on a separate line item below income from operations in the Condensed Consolidated Statements of Operations. Under ASU No. 2016-15, payments received for the settlement of corporate-owned life insurance claims are now required to be disclosed within investing activities. Accordingly, balances previously reported as a source of cash from operating activities have been reclassified to investing activities in the Condensed Consolidated Statements of Cash Flows.

Income Per Share

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Weighted average shares outstanding - basic | 45,552 | 46,107 | 45,751 | 45,753 |
| Dilutive effect of equity incentive plan instruments | 1,786 | 1,345 | 1,637 | 1,276 |
| Weighted average shares outstanding - diluted | 47,338 | 47,452 | 47,388 | 47,029 |

Stock options and restricted stock units to acquire a weighted average of 5,000 shares and 20,000 shares for the three months ended September 30, 2018 and 2017, respectively, of Class A common stock were excluded from the computation of diluted earnings per share because their impact would have been anti-dilutive. Stock options and restricted stock units to acquire a weighted average of 27,000 shares and 199,000 shares during the nine months ended

September 30, 2018 and 2017, respectively, of Class A common stock were excluded from the computation of diluted earnings per share because their impact would have been anti-dilutive.

Basis of Presentation

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

Recent Accounting Pronouncements

New Accounting Standards Adopted

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

In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows (Topic 230) Classification of Certain Cash Receipts and Cash Payments (a consensus of the Emerging Issues Task Force) ("ASU 2016-15"). The amendments in ASU 2016-15 address eight specific cash flow issues and apply to all entities that are required to present a statement of cash flows under FASB Accounting Standards Codification 230, Statement of Cash Flows. The amendments in ASU 2016-15 are effective for fiscal years, and interim periods within those years, beginning after December 15, 2017. The Company has applied the change in accounting as of January 1, 2018 on a retrospective basis. This adoption impacted Nexstar's previous financing activity classification of payments for contingent consideration in 2017 related to an acquisition. The payment was not made soon after the consummation of a business combination and includes an amount that is more than the acquisition date fair value of the contingent consideration liability. Under ASU 2016-15, this portion of the transaction should be classified as an operating activity in the Condensed Consolidated Statement of Cash Flows. The adoption also impacted Nexstar's disclosure of payments received for the settlement of corporate-owned life insurance claims within the Condensed Consolidated Statement of Cash Flows during the nine months ended September 30, 2017. The payments were previously reported as a source of cash from operating activities and are now required to be disclosed within investing activities. As such, the amounts previously reported as net cash provided by operating activities and net cash used in investing activities decreased, as indicated in the table below.

In November 2016, the FASB issued ASU No. 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash, a consensus of the FASB Emerging Issues Task Force ("ASU 2016-18"), which provides guidance on the presentation of restricted cash or restricted cash equivalents in the statement of cash flows. ASU 2016-18 is effective for public business entities in fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company has applied the change in accounting as of January 1, 2018 on a retrospective basis. This adoption impacted the release of a restricted escrow deposit into Nexstar's operating cash during the nine months ended September 30, 2017. In July 2016, Nexstar issued its $900.0 million 5.625% Senior Unsecured Notes (the "5.625% Notes") at par, the gross proceeds of which were directly deposited into a restricted escrow account. Interest on these notes is payable semiannually but Nexstar was required to pre-fund interest on such notes monthly from July 2016 to December 2016, all of which was also deposited in the restricted escrow account. As of December 31, 2016, the restricted escrow account had a balance of $927.8 million. In January 2017, Nexstar completed its merger with Media General, Inc. ("Media General"). As a result, the funds previously deposited in the restricted escrow account, including the pre-funded interests, were released to Nexstar's operating cash. On February 1, 2017, Nexstar paid the first interest due to the lenders of the 5.625% Notes of $25.9 million. During the nine months ended September 30, 2017, Nexstar previously classified the effects of these transactions in its Condensed Consolidated Statement of Cash Flows as follows: (i) $21.6 million source of cash from change in prepaid expenses and other current assets, (ii) $1.1 million source of cash from change in other noncurrent assets, (iii) $5.1 million source of cash from investing activities, (iv) $900.0 million proceeds from long-term debt, and (v) no cash flow reported in 2017 for the payment of interest on the 5.625% Notes as the cash flow impact was reported in 2016 when the pre-funding was made. Under ASU 2016-18, transfers between cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents are not part of an entity's operating, investing and financing activities, and details of those transfers are not reported as cash flow activities in the statement of cash flows. As such, the previous classifications in the 2017 Condensed Consolidated Statement of Cash Flows related to these transactions were reversed. Additionally, the cash, cash equivalents and restricted cash at the beginning of the period in 2017 increased and the supplemental cash flow information for interest paid also increased.

The following table summarizes the line items in the Condensed Consolidated Statement of Cash Flows that were impacted by the adoption of ASU 2016-15 and ASU 2016-18 along with reclassifications to conform with current year presentation (in thousands):

| | Nine Months Ended September 30, 2017 | | | | |
|---|---|---|---|---|---|
| | Previously Reported | Adjustments for adoption of ASU 2016-15 | Adjustments for adoption of ASU 2016-18 | Reclassifications | Current Presentation |
| Cash flows from operating activities: | | | | | |
| Payments for contingent consideration in connection with an acquisition | $ - | $ (4,044) | $ - | $ - | $ (4,044) |
| Other non-cash credits | (1,239) | - | - | (1,866) | (3,105) |
| Accounts receivable | (6,242) | (834) | - | - | (7,076) |
| Prepaid expenses and other current assets | 28,907 | - | (21,656) | - | 7,251 |
| Other noncurrent assets | 454 | - | (1,080) | 1,866 | 1,240 |
| Net cash provided by operating activities | 90,778 | (4,878) | (22,736) | - | 63,164 |
| Cash flows from investing activities: | | | | | |
| Withdrawal of interest previously deposited in escrow | 5,063 | - | (5,063) | - | - |
| Proceeds received from corporate-owned life insurance policies | - | 834 | | - | 834 |
| Net cash used in investing activities | (2,037,976) | 834 | (5,063) | - | (2,042,205) |
| Cash flows from financing activities: | | | | | |
| Proceeds from long-term debt | 4,433,981 | - | (900,000) | - | 3,533,981 |
| Payments for contingent consideration in connection with an acquisition | (263,647) | 4,044 | - | - | (259,603) |
| Net cash provided by financing activities | 1,995,319 | 4,044 | (900,000) | - | 1,099,363 |
| Net increase (decrease) in cash, cash equivalents and restricted cash | 48,121 | - | (927,799) | - | (879,678) |
| Cash, cash equivalents and restricted cash at beginning of period | 87,680 | - | 927,799 | - | 1,015,479 |
| | | | | | |
| Supplemental information: | | | | | |
| Interest paid | $ 175,000 | $ - | $ 25,875 | $ - | $ 200,875 |

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

In March 2017, the FASB issued ASU No. 2017-07, Compensation—Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost (“ASU 2017-07”). ASU 2017-07 requires entities to (1) disaggregate the current-service-cost component from the other components and present it with other current compensation costs for related employees in the income statement and (2) present the other components elsewhere in the income statement and outside of income from operations if that subtotal is presented. In addition, ASU 2017-07 requires entities to disclose the income statement lines that contain the other components if they are not presented on appropriately described separate lines. The amendment should be applied retrospectively for the presentation of the service cost component and prospectively for the capitalization of the service cost component. ASU 2017-07 is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company has applied the change in accounting as of January 1, 2018. Accordingly, net periodic benefit income, excluding service costs, of $3.2 million and $8.9 million for the three and nine months ended September 30, 2017, respectively, were adjusted out of selling, general and administrative expenses, and separately stated below income from operations.

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

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

In August 2018, the SEC adopted the final rule under SEC Release No. 33-10532, Disclosure Update and Simplification, amending certain disclosure requirements that were redundant, duplicative, overlapping, outdated or superseded. In addition, the amendments expanded the disclosure requirements on the analysis of stockholders' equity for interim financial statements. Under the amendments, an analysis of changes in each caption of stockholders' equity presented in the balance sheet must be provided in a note or separate statement. The analysis should present a reconciliation of the beginning balance to the ending balance of each period for which a statement of comprehensive income is required to be filed. This final rule is effective on November 5, 2018. The Company has applied the new SEC disclosure requirements in its Condensed Consolidated Financial Statements on a retrospective basis.

New Accounting Standards Not Yet Adopted

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842) ("ASU 2016-02"). The new guidance requires the recording of assets and liabilities arising from leases on the balance sheet accompanied by enhanced qualitative and quantitative disclosures in the notes to the financial statements. The new guidance is expected to provide transparency of information and comparability among organizations. In January 2018, the FASB issued ASU No. 2018-01 to address the accounting treatment of land easements within the context of ASU No. 2016-02. ASU 2018-01 provides an optional transition practical expedient to not evaluate under Topic 842 existing or expired land easements that were not previously accounted for as leases under the current leases guidance in Topic 840. In July 2018, the FASB issued ASU Nos. 2018-10 and 2018-11 which provide (i) narrow amendments to clarify how to apply certain aspects of the new lease standard, (ii) an additional optional transition method to recognize a cumulative-effect adjustment to the opening retained earnings in the period of adoption, (iii) a practical expedient to not separate nonlease components from the associated lease component if certain conditions are met, and (iv) lessors with a practical expedient for separating components of a contract. ASU 2016-02 is effective for interim and annual reporting periods beginning after December 15, 2018, with early adoption permitted. The Company will adopt ASU 2016–02 as of January 1, 2019 using the optional transition method and will apply certain practical expedients offered in the guidance, such as those that state that the Company need not reassess whether expired or existing contracts contain leases, reevaluate the classification of expired or existing leases, or reassess initial direct costs for existing leases. Management has substantially completed the process of identifying existing lease contracts and is currently performing detailed evaluations of the leases under the new accounting requirements. The Company believes the most significant changes to the financial statements relate to the recognition of right–of–use assets and offsetting lease liabilities in the consolidated balance sheet for operating leases. The actual impact on the consolidated balance sheet will be contingent upon the Company's population of operating leases at adoption however, management does not expect the standard to have a material impact on cash flows or results of operations.

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments - Credit Losses (Topic 326) ("ASU 2016-13"). The standard requires entities to estimate loss of financial assets measured at amortized cost, including trade receivables, debt securities and loans, using an expected credit loss model. The expected credit loss model differs from the previous incurred losses model primarily in that the loss recognition threshold of “probable” has been eliminated and that expected loss should consider reasonable and supportable forecasts in addition to the previously considered past events and current conditions. Additionally, the guidance requires additional disclosures related to the further disaggregation of information related to the credit quality of financial assets by year of the asset’s origination for as many as five years. Entities must apply the standard provision as a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective. The standard is effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. Early adoption is permitted for annual periods beginning after December 15, 2018, and interim periods within those fiscal years. The Company is currently evaluating the impact of adopting ASU 2016-13 on its Condensed Consolidated Financial Statements.

In June 2018, the FASB issued ASU No. 2018-07, Compensation—Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting (“ASU 2018-07”). The standard aligns the accounting for share-based payment awards issued to employees and nonemployees. Changes to the accounting for nonemployee awards include: (1) equity-classified share-based payment awards issued to nonemployees will now be measured on the grant date, instead of the previous requirement to remeasure the awards through the performance completion date; (2) for performance conditions, compensation cost associated with the award will be recognized when achievement of the performance condition is probable, rather than upon achievement of the performance condition; and (3) the current requirement to reassess the classification (equity or liability) for nonemployee awards upon vesting will be eliminated, except for awards in the form of convertible instruments. The guidance should be applied to all new awards granted after the date of adoption. In addition, the modified retrospective approach should be used on all liability-classified awards that have not been settled and equity-classified awards for which a measurement date has not been established by the adoption date by remeasurement at fair value as of the adoption date with a cumulative effect adjustment to opening retained earnings in the fiscal year of adoption. The standard is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted, but no earlier than an entity’s adoption of ASC 606. The Company is currently evaluating the impact of adopting ASU 2018-07 on its Condensed Consolidated Financial Statements.

In August 2018, the FASB issued ASU No. 2018-13, Fair Value Measurement (Topic 820) (“ASU 2018-13”), which modifies the disclosure requirements on fair value measurements. The amendments in this update are effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early adoption is permitted for any removed or modified disclosures. The Company is currently evaluating the impact of adopting ASU 2018-13 on its Condensed Consolidated Financial Statements.

In August 2018, the FASB issued ASU 2018-14, Compensation-Retirement Benefits-Defined Benefit Plans-General (Subtopic 715-20) (“ASU 2018-14”).  ASU 2018-14 removes certain disclosures that are not considered cost beneficial, clarifies certain required disclosures and adds additional disclosures. The amendments in this Update are effective for fiscal years ending after December 15, 2020, with early adoption is permitted. The updated standard should be applied on a retrospective basis. The Company is currently evaluating the impact of adopting ASU 2018-14 on its consolidated financial statements.

In August 2018, the FASB issued ASU 2018-15, Intangibles-Goodwill and Other-Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That is a Service Contract (“ASU 2018-15”). ASU 2018-15 aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. The amendments in this Update are effective for interim and annual reporting periods beginning after December 15, 2019, and early adoption is permitted. The Company is currently evaluating the impact of adopting ASU 2018-15 on its Condensed Consolidated Financial Statements.

## 3. Acquisitions

### LKQD

On January 16, 2018, Nexstar Digital LLC (“Nexstar Digital”), a wholly-owned subsidiary of Nexstar, acquired the outstanding equity of LKQD, a video advertising infrastructure company, for $97.0 million. In January 2018, $94.0 million of the purchase price was paid, funded by a combination of borrowing under Nexstar’s revolving credit facility (Note 7) and cash on hand. The remaining purchase price of $3.0 million (working capital adjustment) was paid to the former owners on April 27, 2018, funded by cash on hand.

The sellers are also entitled to receive up to $35.0 million in additional cash payments if a certain earnings target is achieved during the fiscal year 2019 and if certain employees have continued their employment with Nexstar Digital on the date of payment (the “Earnout Payments”). The Earnout Payments are considered compensation to employees for their services and will be incurred from the acquisition date through December 31, 2019. As of September 30, 2018, Nexstar Digital accrued $1.9 million, representing the portion of the estimated fair value of the Earnout Payments that is incurred. The estimated fair value of the Earnout Payments was determined by applying a weighted probability of potential outcomes to the maximum possible payout of $35.0 million. The calculation of these potential outcomes is dependent on past financial performance, management assumptions about future performance and industry trends and any changes to these assumptions could impact the final settlement. This fair value measurement is considered Level 3 as significant inputs are unobservable to the market.

The acquisition of LKQD broadens and diversifies Nexstar Digital’s portfolio with technologies that are complementary to its current offerings of digital solutions and services for media publishers, and multi-platform marketing solutions for local and national advertisers. Transaction costs relating to this acquisition, including legal and professional fees of $0.4 million, were expensed as incurred during the nine months ended September 30, 2018. No significant transaction costs were incurred during the three months ended September 30, 2018.

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

| | |
|---|---|
| Cash and cash equivalents | $11,167 |
| Accounts receivable | 24,712 |
| Prepaids | 13 |
| Property and equipment | 210 |
| Other intangible assets | 45,320 |
| Goodwill | 42,094 |
| Total assets acquired and consolidated | 123,516 |
| Less: Accounts payable and accrued expenses | (18,816 ) |
| Less: Taxes payable | (1,065 ) |
| Less: Deferred tax liabilities | (6,603 ) |
| Net assets acquired and consolidated | $97,032 |

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

During 2018, Nexstar Digital recorded measurement period adjustments including a decrease in accounts receivable of $1.2 million, resulting from changes in the estimate of collectability of accounts receivable. This adjustment increased goodwill by $1.0 million, along with other measurement period adjustments.

LKQD's net revenue of $25.6 million and operating loss of $0.9 million from the date of acquisition to September 30, 2018 have been included in the accompanying Condensed Consolidated Statements of Operations.

WHDF

On July 15, 2018, Nexstar entered into a definitive agreement to acquire the assets of television station WHDF from Huntsville TV for $3.0 million in cash, including working capital adjustments. WHDF is a full power television station in the Huntsville, Alabama market and an affiliate of CW. Effective July 15, 2018, Nexstar began providing programming and sales services to the station pursuant to a TBA, which created a new duopoly for Nexstar. The TBA will terminate upon completion of the acquisition or if the acquisition cannot be completed for reasons beyond the control of Nexstar and the seller. No significant transaction costs were incurred related to this acquisition.

On July 15, 2018, Nexstar completed the first closing and acquired the station's assets excluding certain transmission equipment, FCC licenses and network affiliation agreements for $2.3 million, funded by cash on hand.

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

| | |
|---|---|
| Prepaid expenses and other current assets | $35 |
| Property and equipment | 570 |
| Other intangible assets | 246 |
| Other noncurrent assets | 26 |
| Total assets acquired at first closing | 877 |
| Less: Accrued expenses | (30) |
| Net assets acquired at first closing | 847 |
| Deposit on second closing | 1,434 |
| Total paid at first closing | $2,281 |

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

Since not all assets needed to operate the station were acquired in July 2018, the first closing does not represent an acquisition of a business. Thus, the excess of total payments in the first closing over the provisional fair values of the assets acquired and liabilities assumed was considered a deposit for the second closing. As discussed in Note 2, Nexstar is not the primary beneficiary of its variable interests in WHDF. Therefore, as of September 30, 2018, the station’s remaining assets were not consolidated into Nexstar under authoritative guidance related to the consolidation of VIEs.

An insignificant amount of net revenue and operating income incurred by the station from July 15, 2018 to September 30, 2018 have been included in the accompanying Condensed Consolidated Statements of Operations.

The acquisition was approved by the FCC on October 17, 2018. Nexstar expects to complete the acquisition of the remaining assets of WHDF (second closing) and pay the remaining purchase price of $0.7 million in early November 2018.

KRBK

On August 1, 2018, Nexstar entered into a definitive agreement to acquire the assets of television station KRBK from KRBK, LLC for $17.6 million in cash, including working capital adjustments. KRBK is a full power television station in the Springfield, Missouri market and an affiliate of FOX. Effective August 1, 2018, Nexstar began providing programming and sales services to the station pursuant to a TBA, which created a new duopoly for Nexstar. The TBA will terminate upon completion of the acquisition. If the acquisition of KRBK cannot be completed for reasons beyond the control of Nexstar and the seller, the purchase agreement will terminate but the TBA will continue for an initial eight-year term and will automatically renew for three successive eight-year terms, unless a written non-renewal notice is provided by either party.

On August 1, 2018, Nexstar completed the first closing of the acquisition and acquired the station's assets excluding certain transmission equipment, FCC licenses and network affiliation agreements for $15.1 million, funded by cash on hand.

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

| | |
|---|---|
| Accounts receivable | $2,238 |
| Broadcast rights | 73 |
| Property and equipment | 758 |
| Other intangible assets | 119 |
| Other noncurrent assets | 87 |
| Total assets acquired at first closing | 3,275 |
| Less: Accounts payable and accrued expenses | (1,281 ) |
| Net assets acquired at first closing | 1,994 |
| Deposit on second closing | 13,105 |
| Total paid at first closing | $15,099 |

Other intangible assets are amortized over an estimated weighted average useful life of one year.

Since not all assets needed to operate the station were acquired in August 2018, the first closing does not represent an acquisition of a business. Thus, the excess of total payments in the first closing over the provisional fair values of the assets acquired and liabilities assumed was considered a deposit for the second closing. As discussed in Note 2, Nexstar is the primary beneficiary of its variable interests in KRBK. Therefore, the station's remaining assets as of August 1, 2018, and transactions thereafter, were consolidated into Nexstar under authoritative guidance related to the consolidation of VIEs.

Subject to final determination, which is expected to occur within 12 months of the acquisition date, the provisional fair values of the station's remaining assets consolidated into Nexstar are as follows (in thousands):

| | |
|---|---|
| Property and equipment | $3,136 |
| FCC licenses | 4,401 |
| Network affiliation agreements | 5,719 |
| Goodwill | 2,317 |
| Consolidated assets of a VIE | 15,573 |

The fair value assigned to goodwill is attributable to future expense reductions utilizing management's leverage in programming and other station operating costs. The goodwill and FCC licenses are deductible for tax purposes. The intangible assets related to the network affiliation agreements are amortized over 15 years. The consolidation of the remaining assets of KRBK resulted in a noncontrolling interest of $15.6 million, representing the estimated fair value attributable to the owner.

The station's net revenue of $1.7 million and operating income of $0.8 million from August 1, 2018 to September 30, 2018 have been included in the accompanying Condensed Consolidated Statements of Operations. Transaction costs relating to the acquisition were not significant during the three and nine months ended September 30, 2018.

The acquisition was approved by the FCC on October 17, 2018. On November 1, 2018, Nexstar completed the acquisition of the remaining assets of KRBK. Nexstar paid the owners the remaining purchase price of $2.5 million, funded by cash on hand, and utilized its $13.1 million balance of deposit previously paid to the owners to acquire the noncontrolling interest of $15.6 million.

4. Intangible Assets and Goodwill

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

| | Estimated useful life, in years | September 30, 2018 | | | December 31, 2017 | | |
|---|---|---|---|---|---|---|---|
| | | Gross | Accumulated Amortization | Net | Gross | Accumulated Amortization | Net |
| Network affiliation agreements | 15 | $1,976,888 | $(547,528) | $1,429,360 | $1,971,170 | $(461,345) | $1,509,825 |
| Other definite-lived intangible assets | 1-20 | 244,084 | | | | | |