

NEXSTAR BROADCASTING GROUP INC

Form 10-Q

August 08, 2006

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**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

Washington, DC 20549

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**FORM 10-Q**

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☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
for the quarterly period ended June 30, 2006

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

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**NEXSTAR BROADCASTING GROUP, INC.**

(Exact name of registrant as specified in its charter)

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Delaware  
(State of Organization)

or Incorporation)

23-3083125  
(IRS Employer

Identification No.)

909 Lake Carolyn Parkway, Suite 1450

(972) 373-8800

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Irving, Texas 75039

(Address of Principal Executive Offices, including Zip Code)

(Registrant's Telephone Number, Including Area Code)

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Securities Registered Pursuant to Section 12(b) of the Act: None

Securities Registered Pursuant to Section 12(g) of the Act:

| Title of Each Class                              | Name of Each Exchange on Which Registered |
|--------------------------------------------------|-------------------------------------------|
| Class A Common Stock, \$0.01 par value per share | The Nasdaq Stock Market's National Market |

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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 is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act (check one):

Large accelerated filer ☐ Accelerated filer ☒ Non-accelerated filer ☐

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 July 31, 2006, the Registrant had outstanding:

14,304,310 shares of Class A Common Stock;

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

662,529 shares of Class C Common Stock

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**Table of Contents****PART I. FINANCIAL INFORMATION****ITEM 1. Financial Statements****NEXSTAR BROADCASTING GROUP, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS****(in thousands, except share information)**

|                                                                                              | June 30,    | December 31, |
|----------------------------------------------------------------------------------------------|-------------|--------------|
|                                                                                              | 2006        | 2005         |
|                                                                                              | (Unaudited) |              |
| <b>ASSETS</b>                                                                                |             |              |
| Current assets:                                                                              |             |              |
| Cash and cash equivalents                                                                    | \$ 12,697   | \$ 13,487    |
| Accounts receivable, net of allowance for doubtful accounts of \$828 and \$863, respectively | 50,286      | 46,706       |
| Current portion of broadcast rights                                                          | 5,737       | 12,574       |
| Prepaid expenses and other current assets                                                    | 2,489       | 1,980        |
| Deferred tax asset                                                                           | 57          |              |
| Assets held for sale                                                                         |             | 516          |
| Total current assets                                                                         | 71,266      | 75,263       |
| Property and equipment, net                                                                  | 97,892      | 98,156       |
| Broadcast rights                                                                             | 7,567       | 3,704        |
| Goodwill                                                                                     | 146,258     | 146,258      |
| FCC licenses                                                                                 | 138,437     | 138,437      |
| Other intangible assets, net                                                                 | 197,430     | 209,536      |
| Other noncurrent assets                                                                      | 8,347       | 8,727        |
| Total assets                                                                                 | \$ 667,197  | \$ 680,081   |
| <b>LIABILITIES AND STOCKHOLDERS DEFICIT</b>                                                  |             |              |
| Current liabilities:                                                                         |             |              |
| Current portion of debt                                                                      | \$ 3,485    | \$ 3,485     |
| Current portion of broadcast rights payable                                                  | 6,254       | 13,169       |
| Accounts payable                                                                             | 9,937       | 9,176        |
| Accrued expenses                                                                             | 11,315      | 12,115       |
| Taxes payable                                                                                | 252         | 249          |
| Interest payable                                                                             | 6,502       | 6,556        |
| Deferred revenue                                                                             | 5,163       | 4,369        |
| Total current liabilities                                                                    | 42,908      | 49,119       |
| Debt                                                                                         | 639,168     | 643,020      |
| Broadcast rights payable                                                                     | 8,336       | 4,639        |
| Deferred tax liabilities                                                                     | 36,243      | 34,256       |
| Deferred revenue                                                                             | 3,145       | 3,207        |
| Deferred gain on sale of assets                                                              | 6,022       | 6,240        |
| Other liabilities                                                                            | 6,171       | 5,625        |
| Total liabilities                                                                            | 741,993     | 746,106      |

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## Commitments and contingencies

### Stockholders' deficit:

Preferred stock - \$0.01 par value, authorized 200,000 shares; no shares issued and outstanding at both June 30, 2006 and December 31, 2005

### Common stock:

Class A Common - \$0.01 par value, authorized 100,000,000 shares; issued and outstanding 14,289,310 at both June 30, 2006 and December 31, 2005

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Class B Common - \$0.01 par value, authorized 20,000,000 shares; issued and outstanding 13,411,588 at both June 30, 2006 and December 31, 2005

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Class C Common - \$0.01 par value, authorized 5,000,000 shares; issued and outstanding 662,529 at both June 30, 2006 and December 31, 2005

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Additional paid-in capital

393,277

392,393

Accumulated deficit

(468,357)

(458,702)

Total stockholders' deficit

(74,796)

(66,025)

Total liabilities and stockholders' deficit

\$ 667,197

\$ 680,081

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

**Table of Contents****NEXSTAR BROADCASTING GROUP, INC.****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS****(in thousands, except per share amounts)**

|                                                                                                                   | <b>Three Months Ended<br/>June 30,</b> |             | <b>Six Months Ended<br/>June 30,</b> |             |
|-------------------------------------------------------------------------------------------------------------------|----------------------------------------|-------------|--------------------------------------|-------------|
|                                                                                                                   | <b>2006</b>                            | <b>2005</b> | <b>2006</b>                          | <b>2005</b> |
|                                                                                                                   | <b>(Unaudited)</b>                     |             | <b>(Unaudited)</b>                   |             |
| Net revenue                                                                                                       | \$ 64,561                              | \$ 58,662   | \$ 124,387                           | \$ 111,974  |
| Operating expenses:                                                                                               |                                        |             |                                      |             |
| Direct operating expenses (exclusive of depreciation and amortization shown separately below)                     | 17,705                                 | 16,552      | 35,093                               | 32,749      |
| Selling, general, and administrative expenses (exclusive of depreciation and amortization shown separately below) | 20,748                                 | 18,209      | 41,126                               | 36,304      |
| Amortization of broadcast rights                                                                                  | 4,338                                  | 5,282       | 9,566                                | 11,440      |
| Amortization of intangible assets                                                                                 | 6,053                                  | 6,647       | 12,106                               | 13,409      |
| Depreciation                                                                                                      | 4,622                                  | 4,327       | 9,248                                | 8,750       |
| Loss on property held for sale                                                                                    |                                        | 616         |                                      | 616         |
| Loss on asset disposal, net                                                                                       | 16                                     | 140         | 80                                   | 249         |
| Total operating expenses                                                                                          | 53,482                                 | 51,773      | 107,219                              | 103,517     |
| Income from operations                                                                                            | 11,079                                 | 6,889       | 17,168                               | 8,457       |
| Interest expense, including amortization of debt financing costs                                                  | (12,899)                               | (10,893)    | (25,141)                             | (23,968)    |
| Loss on extinguishment of debt                                                                                    |                                        | (15,715)    |                                      | (15,715)    |
| Interest income                                                                                                   | 166                                    | 44          | 283                                  | 83          |
| Other income (expenses), net                                                                                      |                                        |             |                                      | (48)        |
| Loss before income taxes                                                                                          | (1,654)                                | (19,675)    | (7,690)                              | (31,191)    |
| Income tax expense                                                                                                | (714)                                  | (1,253)     | (1,965)                              | (2,545)     |
| Net loss                                                                                                          | \$ (2,368)                             | \$ (20,928) | \$ (9,655)                           | \$ (33,736) |
| Net loss per common share:                                                                                        |                                        |             |                                      |             |
| Basic and diluted                                                                                                 | \$ (0.08)                              | \$ (0.74)   | \$ (0.34)                            | \$ (1.19)   |
| Weighted average number of common shares outstanding:                                                             |                                        |             |                                      |             |
| Basic and diluted                                                                                                 | 28,372                                 | 28,363      | 28,368                               | 28,363      |

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

**Table of Contents****NEXSTAR BROADCASTING GROUP, INC.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(in thousands)

|                                                                                            | Six Months Ended |                                 |
|--------------------------------------------------------------------------------------------|------------------|---------------------------------|
|                                                                                            | 2006             | June 30,<br>2005<br>(Unaudited) |
| <b>Cash flows from operating activities:</b>                                               |                  |                                 |
| Net loss                                                                                   | \$ (9,655)       | \$ (33,736)                     |
| Adjustments to reconcile net loss to net cash provided by (used for) operating activities: |                  |                                 |
| Deferred income taxes                                                                      | 1,930            | 2,506                           |
| Provision for bad debts                                                                    | 308              | 505                             |
| Depreciation of property and equipment                                                     | 9,248            | 8,750                           |
| Amortization of intangible assets                                                          | 12,106           | 13,409                          |
| Amortization of debt financing costs                                                       | 555              | 772                             |
| Amortization of broadcast rights, excluding barter                                         | 3,983            | 4,981                           |
| Payments for broadcast rights                                                              | (4,209)          | (4,997)                         |
| Loss on asset disposal, net                                                                | 80               | 249                             |
| Loss on property held for sale                                                             |                  | 616                             |
| Loss on extinguishment of debt                                                             |                  | 15,715                          |
| Deferred gain recognition                                                                  | (218)            | (218)                           |
| Amortization of debt discount                                                              | 5,891            | 5,451                           |
| Stock-based compensation expense                                                           | 884              |                                 |
| Effect of accounting for derivative instruments                                            |                  | (197)                           |
| Call premium and interest paid in connection with repayment of senior subordinated notes   |                  | (15,981)                        |
| Changes in operating assets and liabilities, net of acquisitions:                          |                  |                                 |
| Accounts receivable                                                                        | (3,888)          | 2,491                           |
| Prepaid expenses and other current assets                                                  | (509)            | 1,420                           |
| Other noncurrent assets                                                                    | (307)            | (185)                           |
| Accounts payable and accrued expenses                                                      | (39)             | (3,970)                         |
| Taxes payable                                                                              | 3                | 376                             |
| Interest payable                                                                           | (54)             | (2,377)                         |
| Deferred revenue                                                                           | 732              | 532                             |
| Other noncurrent liabilities                                                               | 546              | 140                             |
| Net cash provided by (used for) operating activities                                       | 17,387           | (3,748)                         |
| <b>Cash flows from investing activities:</b>                                               |                  |                                 |
| Additions to property and equipment                                                        | (8,931)          | (7,105)                         |
| Proceeds from sale of assets                                                               | 503              | 94                              |
| Acquisition of broadcast properties and related transaction costs                          |                  | (12,481)                        |
| Net cash used for investing activities                                                     | (8,428)          | (19,492)                        |
| <b>Cash flows from financing activities:</b>                                               |                  |                                 |
| Proceeds from debt issuance                                                                |                  | 427,375                         |
| Repayment of long-term debt                                                                | (9,743)          | (256,325)                       |
| Proceeds from revolver draws                                                               |                  | 1,000                           |
| Repayment of senior subordinated notes                                                     |                  | (153,619)                       |
| Payments for debt financing costs                                                          | (6)              | (3,436)                         |

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|                                                      |           |           |
|------------------------------------------------------|-----------|-----------|
| Net cash provided by (used for) financing activities | (9,749)   | 14,995    |
| Net decrease in cash and cash equivalents            | (790)     | (8,245)   |
| Cash and cash equivalents at beginning of period     | 13,487    | 18,505    |
| Cash and cash equivalents at end of period           | \$ 12,697 | \$ 10,260 |

## Supplemental schedule of cash flow information:

|                                            |           |           |
|--------------------------------------------|-----------|-----------|
| Cash paid for interest, net                | \$ 18,742 | \$ 27,882 |
| Cash paid (refunded) for income taxes, net | \$ 31     | \$ (126)  |

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

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**NEXSTAR BROADCASTING GROUP, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**1. Organization and Business Operations**

As of June 30, 2006, Nexstar Broadcasting Group, Inc. ( Nexstar ) owned, operated, programmed or provided sales and other services to 46 television stations, 45 of which are affiliated with the NBC, ABC, CBS, Fox or UPN television networks and one of which is an independent station, in markets located in New York, Pennsylvania, Illinois, Indiana, Missouri, Texas, Louisiana, Arkansas, Alabama, Montana and Maryland. Through various local service agreements, Nexstar provided sales, programming and other services to stations owned and/or operated by independent third parties. Nexstar operates in one reportable television broadcasting segment. The economic characteristics, services, production process, customer type and distribution methods for Nexstar's operations are substantially similar and are therefore aggregated as a single reportable segment.

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

On January 24, 2006, the owners of UPN and WB announced that the two television networks will merge to form a new network called The CW. The Company (as defined below) operates 3 UPN affiliated stations located in Wichita Falls, Texas; Champaign, Illinois; and Utica, New York. These three stations will not be joining The CW network, but instead will become affiliates of My Network TV, a new primetime programming network to be launched in September 2006. Management believes the change in affiliation for these three stations will not have a material impact on the Company's condensed consolidated financial position and results of operations.

**2. Summary of Significant Accounting Policies**

***Interim Financial Statements***

The condensed consolidated financial statements as of June 30, 2006 and for the three and six months ended June 30, 2006 and 2005 are unaudited. However, in the opinion of management, such financial statements include all adjustments (consisting solely of normal recurring adjustments) necessary for the fair statement of the financial information included herein in accordance with accounting principles generally accepted in the United States of America ( U.S. GAAP ) and pursuant to the rules and regulations of the Securities and Exchange Commission ( SEC ). The preparation of the condensed consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenue and expenses during the period. Actual results could differ from those estimates. Results of operations for interim periods are not necessarily indicative of results for the full year. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes included in Nexstar's Annual Report on Form 10-K for the fiscal year ended December 31, 2005. The balance sheet at December 31, 2005 has been derived from the audited financial statements at that date, but does not include all of the information and footnotes required by U.S. GAAP for complete financial statements.

***Principles of Consolidation***

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

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

***Mission***

Mission is included in these condensed consolidated financial statements because Nexstar is deemed to have a controlling financial interest in Mission for financial reporting purposes in accordance with FIN No. 46R as a result of (a) local service agreements Nexstar has with the Mission stations, (b) Nexstar's guarantee of the obligations incurred under Mission's senior credit facility and (c) purchase options (which expire on various dates between 2008 and 2014) granted by Mission's sole shareholder which will permit Nexstar to acquire the assets and assume the

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liabilities of each Mission station, subject to Federal Communications Commission ( FCC ) consent. As of June 30, 2006, the assets of Mission consisted of current assets of \$1.9 million (excluding broadcast rights), broadcast rights of \$2.6 million, FCC licenses of \$28.7 million, goodwill of \$16.7 million, other intangible assets of \$44.9 million, property and equipment of \$20.1 million and other noncurrent assets of \$0.6 million. Substantially all of Mission s assets, except for its FCC licenses, collateralize its secured debt obligation.

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**NEXSTAR BROADCASTING GROUP, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**2. Summary of Significant Accounting Policies (Continued)**

Nexstar has entered into local service agreements with Mission to provide sales and/or operating services to the Mission stations. The following table summarizes the various local service agreements Nexstar had in effect with Mission as of June 30, 2006:

| <b>Service Agreements</b>          | <b>Mission Stations</b>                                                               |
|------------------------------------|---------------------------------------------------------------------------------------|
| <b>TBA Only<sup>(1)</sup></b>      | WFXP and KHMT                                                                         |
| <b>SSA &amp; JSA<sup>(2)</sup></b> | KJTL, KJBO-LP, KOLR, KCIT, KCPN-LP, KAMC, KRBC, KSAN, WUTR, WFXW, WYOU, KODE and WTVO |

- (1) Nexstar has a time brokerage agreement ( TBA ) with each of these stations which allows Nexstar to program most of each station's broadcast time, sell each station's advertising time and retain the advertising revenue generated in exchange for monthly payments to Mission.
- (2) Nexstar has both a shared services agreement ( SSA ) and a joint sales agreement ( JSA ) with each of these stations. The SSA allows the sharing of services including news production, technical maintenance and security, in exchange for Nexstar's right to receive certain payments from Mission as described in the SSAs. The JSAs permit Nexstar to sell and retain a percentage of the net revenue from the station's advertising time in return for monthly payments to Mission of the remaining percentage of net revenue, as described in the JSAs.

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

*Variable Interest Entities*

The Company may determine that a station is a VIE as a result of local service agreements entered into with the owner-operator of stations in markets in which the Company owns and operates a station. Local service agreement is a general term used to refer to a contract between two separately owned television stations serving the same market, whereby the owner-operator of one station contracts with the owner-operator of the other station to provide it with administrative, sales and other services required for the operation of its station. Nevertheless, the owner-operator of each station retains control and responsibility for the operation of its station, including ultimate responsibility over all programming broadcast on its station.

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

Nexstar has determined that it has a variable interest in WYZZ, the Fox affiliate in Peoria, Illinois and WUHF, the Fox affiliate in Rochester, New York, each owned by a subsidiary of Sinclair Broadcasting Group, Inc. ( Sinclair ), as a result of outsourcing agreements it has entered into with Sinclair. Nexstar also has determined that it has a variable interest in KTVE, the NBC affiliate in El Dorado, Arkansas, which is owned by Piedmont Television of Monroe/El Dorado LLC ( Piedmont ), as a result of a JSA and SSA entered into with Piedmont. Nexstar has evaluated its arrangements with Sinclair and Piedmont and has determined that it is not the primary beneficiary of the variable interests, and therefore, has not consolidated these stations under FIN No. 46R. Nexstar made payments to Sinclair under the outsourcing agreements of \$1.3 million and \$0.4 million for the three months ended June 30, 2006 and 2005, respectively, and \$2.3 million and \$0.7 million for the six months ended June 30, 2006 and 2005, respectively. Nexstar received payments from Piedmont under the JSA of \$0.2 million and \$0.3 million for the three months ended June 30, 2006 and 2005, respectively, and \$0.5 million for each of the six months ended June 30, 2006 and 2005, respectively.

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

*Basis of Presentation*

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

### ***Stock-Based Compensation***

Nexstar maintains stock-based employee compensation plans which are described more fully in Note 7. On January 1, 2006, the Company adopted Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payment ( SFAS No. 123(R) ) which requires companies to expense the fair value of employee stock options and other forms of stock-based employee compensation in the financial statements (see Adoption of SFAS No. 123(R) ).

**Table of Contents****NEXSTAR BROADCASTING GROUP, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****2. Summary of Significant Accounting Policies (Continued)**

Prior to January 1, 2006, the Company had accounted for Nexstar's stock-based employee compensation plan using the intrinsic value method of expense recognition prescribed by Accounting Principle Board Opinion No. 25, Accounting for Stock Issued to Employees (APB No. 25), and related interpretations, which was permitted as an alternative to the fair value recognition provisions of FASB Statement of Financial Accounting Standards No. 123 Accounting for Stock-Based Compensation (SFAS No. 123). Under the intrinsic value method of accounting of APB No. 25, compensation expense was not recognized when stock options were granted with an exercise price greater than or equal to the fair market value of Nexstar's common stock on the date of the grant. The Company did not recognize compensation cost for employee stock options for the three and six months ended June 30, 2005, as all options granted under Nexstar's stock-based employee compensation plan had an exercise price greater than or equal to the market price of Nexstar's common stock on the date of grant. The Company had applied the disclosure only provisions of SFAS No. 123 and made pro forma disclosure as if the fair value of stock options had been expensed under the accounting prescribed by SFAS No. 123.

The following table illustrates the pro forma effect on the net loss and net loss per share for the three and six months ended June 30, 2005 if the Company had applied the fair value recognition provisions of SFAS No. 123 to stock-based employee compensation.

|                                                                                                                                                | <b>Three Months<br/>Ended June 30,<br/>2005<br/>(in thousands, except per<br/>share amounts)</b> | <b>Six Months<br/>Ended June 30,<br/>2005</b> |
|------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------|-----------------------------------------------|
| Net loss, as reported                                                                                                                          | \$ (20,928)                                                                                      | \$ (33,736)                                   |
| Deduct: Total stock-based employee compensation expense determined under the fair value based method for all awards, net of related tax effect | (346)                                                                                            | (712)                                         |
| Pro forma net loss                                                                                                                             | \$ (21,274)                                                                                      | \$ (34,448)                                   |
| Basic and diluted net loss per common share, as reported                                                                                       | \$ (0.74)                                                                                        | \$ (1.19)                                     |
| Basic and diluted net loss per common share, pro forma                                                                                         | \$ (0.75)                                                                                        | \$ (1.21)                                     |

**Adoption of SFAS No. 123(R)**

On January 1, 2006, the Company adopted SFAS No. 123(R) which requires companies to expense the fair value of employee stock options and other forms of stock-based employee compensation in the financial statements over the period that an employee provides service in exchange for the award. Under SFAS 123(R), the Company measures compensation cost related to stock options based on the grant-date fair value of the award using the Black-Scholes option-pricing model and recognizes it ratably, less estimated forfeitures, over the vesting term of the award. The Company elected to use the modified prospective transition method and has recognized compensation expense for (i) all stock options granted after December 31, 2005 based on the requirements of SFAS No. 123(R), and (ii) the unvested portion of stock options granted prior to January 1, 2006 based on the fair values previously calculated for SFAS No. 123 pro forma disclosure purposes. Accordingly, because the Company applied a prospective transition method, prior period financial statements have not been adjusted to reflect compensation expense under the fair-value recognition provisions of this Statement. At December 31, 2005, the aggregate value of the unvested portion of previously issued stock options was approximately \$6.1 million. Compensation cost related to these stock options is being recognized as expense ratably over the remaining vesting period of the awards which become fully-vested in 2010.

The weighted-average assumptions used in the Black-Scholes calculation for option grants during the six months ended June 30, 2006, were as follows:

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|                                         | Six Months             |
|-----------------------------------------|------------------------|
|                                         | Ended June 30,<br>2006 |
| Volatility factor                       | 44.78%                 |
| Risk-free interest rate                 | 4.36%                  |
| Expected life                           | 6.5 years              |
| Dividend yield                          | 0%                     |
| Fair value per share of options granted | \$ 2.41                |

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### **NEXSTAR BROADCASTING GROUP, INC.**

#### **NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

##### **2. Summary of Significant Accounting Policies (Continued)**

The expected volatility assumption used for stock option grants in 2006 is based on a combination of the historical market prices of Nexstar's common stock and volatilities of peer companies in the television broadcasting industry over the expected term of the granted option. The Company utilized peer company data due to Nexstar's limited history of publicly traded shares. During the six months ended June 30, 2006, Nexstar granted stock options with plain vanilla characteristics and has estimated the expected term assumption using the simplified method provided in SEC Staff Accounting Bulletin No. 107. The Company utilized the simplified method of estimating expected term based on its lack of option exercise history. The risk-free interest rate is based on the daily U.S. Treasury yield curve rate in effect at the time of the grant having a period commensurate with the expected term.

As a result of adopting SFAS No. 123(R), Nexstar recorded \$0.4 million (\$0.01 per basic and diluted share) and \$0.8 million (\$0.03 per basic and diluted share) of compensation expense for the three and six months ended June 30, 2006, respectively, which was included in selling, general and administrative expenses in the Company's condensed consolidated statement of operations. The Company does not currently recognize a tax benefit resulting from compensation costs expensed in the financial statements because the Company provides a valuation allowance against the deferred tax asset resulting from this type of temporary difference since it expects that it will not have sufficient future taxable income to realize such benefit. Accordingly, the adoption of SFAS No. 123(R) has had no impact on income tax expense reported in the financial statements. The ongoing impact of adopting SFAS No. 123(R) will depend on, among other factors, the market price of Nexstar's common stock, the terms, number and timing of future stock option award grants. However, based on the awards currently known to be outstanding, Nexstar anticipates that the impact of adopting SFAS 123(R) will result in annual expense in 2006 of approximately \$1.6 million. This estimate does not include the impact of additional awards, which may be granted, or forfeitures, which may occur, but are not presently known.

##### ***Loss Per Share***

Basic loss per share is computed by dividing the net loss attributable to common stockholders by the weighted-average number of common shares outstanding during the period. Diluted loss per share is computed using the weighted-average number of common shares and dilutive potential common shares outstanding during the period using the treasury stock method. Potential common shares consist of stock options and the unvested portion of restricted stock granted to employees. For the three and six months ended June 30, 2006 and 2005 there is no difference between basic and diluted net loss per share since the effect of stock options and unvested restricted stock would be anti-dilutive and are therefore not included in the computation of diluted net loss per share. Stock options for 1,871,241 and 2,115,747 weighted-average common shares were outstanding during the three months ended June 30, 2006 and 2005, respectively, and stock options for 1,884,243 and 2,119,354 weighted-average common shares were outstanding during the six months ended June 30, 2006 and 2005, respectively, but were not included in the diluted per share computation because the option exercise prices were greater than the average market price of the common stock. Stock options for 1,080,494 and 1,047,375 weighted-average common shares were in-the-money during the three and six months ended June 30, 2006, respectively, but were not included in the diluted per share computation because the Company had a net loss. There were no in-the-money stock options during the three and six months ended June 30, 2005. The weighted-average number of shares of unvested restricted stock was not material in 2006.

##### ***Recent Accounting Pronouncements***

In February 2006, the FASB issued Statement of Financial Accounting Standards No. 155, *Accounting for Hybrid Financial Instruments* an amendment to of FASB Statements No. 133 and 140 (SFAS No. 155). SFAS No. 155 provides a fair value measurement option for certain hybrid financial instruments that contain an embedded derivative that otherwise would require bifurcation. Under SFAS No. 155, an entity must irrevocably elect, on an instrument-by-instrument basis, to apply fair value accounting to a hybrid financial instrument in its entirety in lieu of separately accounting for the instrument as a host contract and derivative instrument. Additionally, SFAS No. 155 clarifies that both interest-only and principal-only strips are not subject to the provision of SFAS No. 133 and establishes a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding versus those that are embedded derivatives. SFAS No. 155 is effective for all financial instruments acquired or issued after the beginning of an entity's first fiscal year that begins after September 15, 2006, which for the Company is January 1, 2007. Earlier adoption is permitted as of the beginning of an entity's fiscal year. The Company will adopt the provisions of SFAS No. 155 beginning in fiscal 2007. Management is currently evaluating the impact the adoption of this Statement will have on the Company's condensed consolidated financial statements, which will primarily depend on the types of hybrid financial instruments the Company issues or acquires in the future.



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### **NEXSTAR BROADCASTING GROUP, INC.**

#### **NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

##### **2. Summary of Significant Accounting Policies (Continued)**

In July 2006, the FASB issued Financial Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109 (FIN No. 48). FIN No. 48 clarifies the accounting for uncertainty in income taxes recognized in the financial statements for tax positions taken or expected to be taken in a tax return. FIN No. 48 requires that a tax position meet a more-likely-than-not threshold for the benefit of an uncertain tax position to be recognized in the financial statements. Under the Interpretation, this threshold is met if it is determined that the tax position will be sustained, based on its technical merits, upon examination by a taxing authority that has full knowledge of all relevant information. A tax position that meets the threshold is measured as the largest amount of benefit that is greater than 50 percent likely of being recognized upon ultimate settlement. This Interpretation also provides guidance for presentation and disclosure of the tax benefit and other related matters in the financial statements. FIN No. 48 is effective for fiscal years beginning after December 15, 2006, which is the Company's fiscal year beginning January 1, 2007. Management is currently evaluating the impact the adoption of FIN No. 48 will have on the Company's financial statements.

In April 2006, the FASB issued FASB Staff Position (FSP) FIN 46R-6, Determining the Variability to Be Considered in Applying FASB Interpretation No. 46(R) (FSP FIN No. 46R-6). This FSP addresses how a reporting enterprise should determine the variability to be considered in applying FIN No. 46R by clarifying that the variability considered be based on an analysis of the design of the entity. The variability that is considered in applying FIN No. 46R affects the determination of (a) whether an entity is a VIE, (b) which interests are variable interests in the entity, (c) if necessary, any calculation of the entity's expected losses and residual returns, and (d) which party, if any, is the primary beneficiary of the VIE. The Company is required to apply the guidance in this FSP prospectively to all entities (including newly created entities) with which it first becomes involved and to all entities previously required to be analyzed under FIN No. 46R when a reconsideration event has occurred, beginning July 1, 2006. The Company will adopt FSP FIN No. 46R-6 in the third quarter 2006 and does not anticipate that adoption will have a material impact on its consolidated financial position or results of operations.

##### **3. Pending Transaction with Mission**

On April 18, 2006, Nexstar and Mission announced that they had filed an application with the FCC for consent for Nexstar to sell KFTA Channel 24 (Ft. Smith, Arkansas) to Mission for \$5.6 million. Pending FCC consent, and upon completion of the sale, Mission intends to provide Fox programming to serve the Ft. Smith-Fayetteville-Springdale-Rogers, Arkansas designated market area. Nexstar's KNWA Channel 51, licensed to Rogers, Arkansas, has renewed its affiliation agreement for KNWA to continue as the NBC affiliate in Ft. Smith-Fayetteville-Springdale-Rogers, Arkansas through 2014. Upon closing the purchase of KFTA, Mission plans to enter into joint sales and shared services agreements with Nexstar's KNWA whereby KNWA will provide local news, sales and other non-programming services to KFTA.

On May 22, 2006, two subsidiaries of Equity Broadcasting Corporation filed a petition to deny against the KFTA assignment application alleging that Nexstar improperly controls Mission and its stations. On June 6, 2006, Nexstar and Mission submitted a joint opposition. The FCC is currently in the process of considering the KFTA assignment application. Although Nexstar's and Mission's management believe that the petition has no merit, it is not possible to predict what action the FCC will take on the petition to deny, or when it will take such action.

##### **4. Property Held for Sale**

During the second quarter of 2005, management committed to a plan to sell buildings in Abilene, Texas and Utica, New York, which were vacated after the Company finalized consolidation of its station operations in these markets. Accordingly, the buildings, building improvements and land were recorded at their estimated fair value less costs to sell. Fair value was based on management's estimate of the amount that could be realized from the sale of the properties in a current transaction between willing parties. The estimate was derived from professional appraisals and quotes obtained from local real estate brokers. On January 31, 2006, the Utica property was sold for cash proceeds of \$0.1 million, and on June 16, 2006, the Abilene property was sold for cash proceeds of \$0.4 million, which approximated the carrying value of the assets.

##### **5. Property and Equipment**

On February 8, 2006, President Bush signed into law legislation that establishes February 17, 2009 as the deadline for television broadcasters to complete their transition to digital transmission and return their analog spectrum to the FCC. As a result, the Company reassessed the estimated useful lives of its analog transmission equipment and has accelerated the depreciation of certain equipment affected by the digital conversion.

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Equipment having a net book value of approximately \$9.8 million as of February 1, 2006, which was previously being depreciated over various remaining useful lives which extended from 2010 to 2020, is now being depreciated over a remaining useful life of three years. This change will increase annual depreciation expense by approximately \$2.3 million. During the three and six months ended June 30, 2006, the accelerated depreciation of analog transmission equipment increased depreciation expense and net loss by approximately \$0.6 million (\$0.02 per basic and diluted share) and approximately \$0.9 million (\$0.03 per basic and diluted share), respectively.

**Table of Contents****NEXSTAR BROADCASTING GROUP, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****6. Intangible Assets and Goodwill**

Intangible assets subject to amortization consisted of the following:

|                                                 | Estimated   | June 30, 2006 |                                |            | December 31, 2005 |                                |            |
|-------------------------------------------------|-------------|---------------|--------------------------------|------------|-------------------|--------------------------------|------------|
|                                                 | useful life |               | Accumulated                    |            | Accumulated       |                                |            |
|                                                 | (years)     | Gross         | Amortization<br>(in thousands) | Net        | Gross             | Amortization<br>(in thousands) | Net        |
| Network affiliation agreements                  | 15          | \$ 335,588    | \$ (147,921)                   | \$ 187,667 | \$ 335,588        | \$ (136,729)                   | \$ 198,859 |
| Other definite-lived intangible assets          | 1-15        | 21,438        | (11,675)                       | 9,763      | 23,132            | (12,455)                       | 10,677     |
| Total intangible assets subject to amortization |             | \$ 357,026    | \$ (159,596)                   | \$ 197,430 | \$ 358,720        | \$ (149,184)                   | \$ 209,536 |

The aggregate carrying value of indefinite-lived intangible assets, consisting of FCC licenses and goodwill, was \$284.7 million at both June 30, 2006 and December 31, 2005. Indefinite-lived intangible assets are not subject to amortization, but are tested for impairment annually or whenever events or changes in circumstances indicate that such assets might be impaired. As of June 30, 2006, the Company did not identify any events that would trigger an impairment assessment.

The change in the carrying amount of goodwill for the periods ended June 30, 2006 and December 31, 2005 was as follows:

|                   | June 30,<br>2006 | December 31,<br>2005 |
|-------------------|------------------|----------------------|
|                   | (in thousands)   |                      |
| Beginning balance | \$ 146,258       | \$ 145,576           |
| Acquisitions      |                  | 682                  |
| Ending balance    | \$ 146,258       | \$ 146,258           |

The consummation of the acquisitions of WTVO and KFTA/KNWA during 2005 increased goodwill by approximately \$0.7 million.

Total amortization expense from definite-lived intangibles was \$6.1 million and \$6.6 million for the three months ended June 30, 2006 and 2005, respectively, and was \$12.1 million and \$13.4 million for the six months ended June 30, 2006 and 2005, respectively. The Company's estimate of amortization expense for definite-lived intangible assets recorded on its books as of June 30, 2006 is approximately \$24 million for each year for the years of 2006 through 2010.

**7. Accrued Expenses**

Accrued expenses consisted of the following:

| June 30,<br>2006 | December 31,<br>2005 |
|------------------|----------------------|
| (in thousands)   |                      |

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|                                              |           |           |
|----------------------------------------------|-----------|-----------|
| Compensation and related taxes               | \$ 3,021  | \$ 3,524  |
| Sales commissions                            | 1,229     | 1,249     |
| Employee benefits                            | 1,168     | 994       |
| Property taxes                               | 964       | 697       |
| Other accruals related to operating expenses | 4,933     | 5,651     |
|                                              | \$ 11,315 | \$ 12,115 |

## 8. Debt

Long-term debt consisted of the following:

|                                                                                  | June 30,<br>2006 | December 31,<br>2005 |
|----------------------------------------------------------------------------------|------------------|----------------------|
|                                                                                  | (in thousands)   |                      |
| Term loans                                                                       | \$ 337,886       | \$ 347,629           |
| 7% senior subordinated notes due 2014, net of discount of \$2,346 and \$2,460    | 197,654          | 197,540              |
| 11.375% senior discount notes due 2013, net of discount of \$22,887 and \$28,664 | 107,113          | 101,336              |
|                                                                                  | 642,653          | 646,505              |
| Less: current portion                                                            | (3,485)          | (3,485)              |
|                                                                                  | \$ 639,168       | \$ 643,020           |

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### **NEXSTAR BROADCASTING GROUP, INC.**

#### **NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

#### **8. Debt (Continued)**

##### ***The Nexstar Senior Secured Credit Facility***

The Nexstar senior secured credit facility (the Nexstar Facility) consists of a Term Loan B and a \$50.0 million revolving loan. As of June 30, 2006 and December 31, 2005, Nexstar had \$166.5 million and \$175.4 million, respectively, outstanding under its Term Loan B and no borrowings were outstanding under its revolving loan.

The Term Loan B, which matures in October 2012, is payable in consecutive quarterly installments amortized at 0.25% quarterly, which commenced on December 30, 2005, with the remaining 93.25% due at maturity. During the six months ended June 30, 2006, repayments of Nexstar's Term Loan B included voluntary repayments of \$8.0 million. The revolving loan is not subject to incremental reduction and matures in April 2012.

The total weighted average interest rate of the Nexstar Facility was 7.25% and 6.28% at June 30, 2006 and December 31, 2005, respectively. Interest is payable periodically based on the type of interest rate selected. Additionally, Nexstar is required to pay quarterly commitment fees on the unused portion of its revolving loan commitment ranging from 0.375% to 0.50% per annum, based on the consolidated senior leverage ratio of Nexstar Broadcasting, Inc. (Nexstar Broadcasting), an indirect subsidiary of Nexstar, and Mission for that particular quarter.

##### ***The Mission Senior Secured Credit Facility***

The Mission senior secured credit facility (the Mission Facility) consists of a Term Loan B and a \$47.5 million revolving loan. As of June 30, 2006 and December 31, 2005, Mission had \$171.4 million and \$172.3 million, respectively, outstanding under its Term Loan B and no borrowings were outstanding under its revolving loan.

Terms of the Mission Facility, including repayment, maturity and interest rates, are the same as the terms of the Nexstar Facility described above. The total weighted average interest rate of the Mission Facility was 7.25% and 6.28% at June 30, 2006 and December 31, 2005, respectively.

##### ***Unused Commitments and Borrowing Availability***

As of June 30, 2006, there was approximately \$97.5 million of total unused commitments under the Nexstar and Mission credit facilities. Based on covenant calculations, as of June 30, 2006, there was approximately \$28.4 million of total available borrowings that could be drawn under the Nexstar and Mission credit facilities.

##### ***Debt Covenants***

The Nexstar Facility contains covenants which require the Company to comply with certain financial covenant ratios, including (1) a maximum total combined leverage ratio of Nexstar Broadcasting and Mission of 7.75 times the last twelve months operating cash flow (as defined in the credit agreement) at June 30, 2006, (2) a maximum combined senior leverage ratio of Nexstar Broadcasting and Mission of 5.25 times the last twelve months operating cash flow at June 30, 2006, (3) a minimum combined interest coverage ratio of 1.50 to 1.00, and (4) a fixed charge coverage ratio of 1.15 to 1.00. The covenants, which are formally calculated on a quarterly basis, are based on the combined results of Nexstar Broadcasting and Mission. Mission's bank credit facility agreement does not contain financial covenant ratio requirements, but does provide for default in the event Nexstar does not comply with all covenants contained in its credit agreement.

The senior subordinated notes and senior discount notes contain restrictive covenants customary for borrowing arrangements of this type.

##### ***Collateralization and Guarantees of Debt***

The bank credit facilities described above are collateralized by a security interest in substantially all the combined assets, excluding FCC licenses, of Nexstar and Mission. Nexstar and its subsidiaries guarantee full payment of all obligations incurred under the Mission Facility in the event of Mission's default. Similarly, Mission is a guarantor of the Nexstar Facility and the senior subordinated notes issued by Nexstar.

Broadcasting.

In consideration of Nexstar's guarantee of Mission's senior credit facility, the sole shareholder of Mission has granted Nexstar a purchase option to acquire the assets and assume the liabilities of each Mission station, subject to FCC consent. These option agreements (which expire on various dates between 2008 and 2014) are freely exercisable or assignable by Nexstar without consent or approval by the sole shareholder of Mission.

**Table of Contents****NEXSTAR BROADCASTING GROUP, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****9. Stock-Based Compensation Plans*****2006 Long-Term Equity Incentive Plan***

On May 30, 2006, Nexstar's shareholders approved the 2006 Long-Term Equity Incentive Plan (the "2006 Plan") which provides for the granting of stock options, stock appreciation rights, restricted stock and performance awards to directors, employees of Nexstar or consultants. Under the 2006 Plan, a maximum of 1,500,000 shares of Nexstar's Class A common stock can be issued. Nexstar is currently in the process of registering the 2006 Plan under the Securities Act of 1933. Under the 2006 Plan, as of June 30, 2006, no shares had been granted and shares will not be available for grant until the registration process is complete.

***2003 Long-Term Equity Incentive Plan***

In 2003, Nexstar established the 2003 Long-Term Equity Incentive Plan (the "2003 Plan") which provides for the granting of stock options, stock appreciation rights, restricted stock and performance awards to directors, officers and other key employees of Nexstar or consultants. Under the 2003 Plan, a maximum of 3,000,000 shares of Nexstar's Class A common stock can be issued, and as of June 30, 2006, a total of 47,000 shares were available for future grant.

As of June 30, 2006, options to purchase 2,923,000 shares of Nexstar's Class A common stock were outstanding under the 2003 Plan. Options awarded under the 2003 Plan are granted with an exercise price at least equal to the fair market value of the underlying shares of common stock on the date of the grant, vest over five years and expire ten years from the date of grant. Except as otherwise determined by the compensation committee or with respect to the termination of a participant's services in certain circumstances, including a change of control, no grant under the 2003 Plan may be exercised within six months of the date of the grant. Upon the employee's termination, all nonvested options are forfeited immediately and any unexercised vested options are canceled thirty days following the termination date. At June 30, 2006, there was approximately \$5.5 million of total unrecognized compensation cost, net of estimated forfeitures, related to stock options that is expected to be recognized over a weighted-average period of 3.76 years.

During 2006, Nexstar granted 30,000 shares of restricted stock under the 2003 Plan. This award vests monthly in increments of 2,500 shares and becomes fully vested as of January 23, 2007. As of June 30, 2006, 12,500 of the awarded shares were vested. The fair value of the award totaling \$140 thousand, which was based on the market price of Nexstar's common stock on the date of grant, is being recognized as an expense ratably over the vesting period. Nexstar recorded \$35 thousand and \$59 thousand of compensation expense for the three and six months ended June 30, 2006, respectively, which was included in selling, general and administrative expenses in the Company's condensed consolidated statement of operations. Prior to January 1, 2006, Nexstar had not granted any restricted stock awards and there were no forfeitures of nonvested restricted stock during the six months ended June 30, 2006. At June 30, 2006, the total unrecognized compensation cost, net of estimated forfeitures, related to restricted stock was \$81 thousand, which is expected to be recognized through first quarter 2007.

The following table summarizes stock award activity and related information for the six months ended June 30, 2006 (not presented in thousands):

|                             | Shares Available |           | Outstanding Options             |                                                     |                                          |
|-----------------------------|------------------|-----------|---------------------------------|-----------------------------------------------------|------------------------------------------|
|                             |                  |           | Weighted-Average Exercise Price | Weighted-Average Remaining Contractual Term (Years) | Aggregate Intrinsic Value <sup>(2)</sup> |
|                             | for Grant        | Shares    |                                 |                                                     |                                          |
| Balance at January 1, 2006  | 217,000          | 2,783,000 | \$ 9.68                         |                                                     |                                          |
| Options granted             | (320,000)        | 320,000   | \$ 4.72 <sub>(1)</sub>          |                                                     |                                          |
| Restricted stock granted    | (30,000)         |           |                                 |                                                     |                                          |
| Options exercised           |                  |           |                                 |                                                     |                                          |
| Options forfeited/cancelled | 180,000          | (180,000) | \$ 10.87                        |                                                     |                                          |

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|                                                    |        |           |          |      |            |
|----------------------------------------------------|--------|-----------|----------|------|------------|
| Balance at June 30, 2006                           | 47,000 | 2,923,000 | \$ 9.07  | 8.39 | \$ 368,000 |
| Exercisable at June 30, 2006                       |        | 774,500   | \$ 12.89 | 7.47 |            |
| Fully vested and expected to vest at June 30, 2006 |        | 2,790,498 | \$ 9.17  | 8.37 | \$ 341,628 |

- (1) All options granted during the six months ended June 30, 2006 had an exercise price equal to the grant-date market price.
- (2) Aggregate intrinsic value includes effects of estimated forfeitures and represents the difference between the closing market price of Nexstar's common stock on the last day of the fiscal period, which was \$4.80 on June 30, 2006, and the exercise price multiplied by the number of options outstanding.

**Table of Contents****NEXSTAR BROADCASTING GROUP, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****9. Stock-Based Compensation Plans (Continued)**

The following table summarizes information about options outstanding as of June 30, 2006:

|                          | Options Outstanding |                                                     | Weighted-Average Exercise Price | Options Exercisable |                                 |
|--------------------------|---------------------|-----------------------------------------------------|---------------------------------|---------------------|---------------------------------|
|                          | Number Outstanding  | Weighted-Average Remaining Contractual Life (Years) |                                 | Number Exercisable  | Weighted-Average Exercise Price |
| Range of Exercise Prices | at 6/30/06          |                                                     |                                 | at 6/30/06          |                                 |
| \$ 4.37 - \$ 4.99        | 1,075,000           | 9.49                                                | \$ 4.46                         |                     |                                 |
| \$ 5.00 - \$ 6.99        | 50,000              | 9.38                                                | \$ 5.80                         |                     |                                 |
| \$ 7.00 - \$ 8.99        | 675,000             | 8.14                                                | \$ 8.62                         | 151,000             | \$ 8.63                         |
| \$ 9.00 - \$13.99        | 100,000             | 7.74                                                | \$ 12.71                        | 40,000              | \$ 12.71                        |
| \$14.00 - \$14.17        | 1,023,000           | 7.42                                                | \$ 14.01                        | 583,500             | \$ 14.00                        |
|                          | 2,923,000           |                                                     |                                 | 774,500             |                                 |

**10. Income Taxes**

The Company's provision for income taxes is primarily comprised of deferred income taxes created by an increase in the deferred tax liabilities position during the year resulting from the amortization of goodwill and other indefinite-lived intangible assets for income tax purposes which are not amortized for financial reporting purposes. These deferred tax liabilities do not reverse on a scheduled basis and are not used to support the realization of deferred tax assets. The Company's deferred tax assets primarily result from federal and state net operating loss carryforwards (NOLs). The Company's NOLs are available to reduce future taxable income if utilized before their expiration. The Company has provided a valuation allowance for certain deferred tax assets as it believes they may not be realized through future taxable earnings.

On May 18, 2006, the State of Texas enacted legislation to change its existing franchise tax from a tax based on taxable capital or earned surplus to a new tax based on modified gross revenue (Margin Tax). The current Texas franchise tax structure will remain in existence until the end of 2006. Beginning in 2007, the Margin Tax imposes a 1% tax on revenues, less certain costs, as specified in the legislation, generated from Texas activities. Additionally, the legislation provides a temporary credit for Texas business loss carryovers existing through 2006 to be used as an offset to the Margin Tax. In accordance with FASB Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes, the Company has recalculated its deferred tax assets and liabilities based on the change in tax law. The effect of the Margin Tax and temporary credit decreased the Company's net deferred tax liabilities position resulting in approximately a \$0.5 million (\$0.02 per basic and diluted share) reduction in the deferred state income tax provision for the three and six months ended June 30, 2006.

**11. 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 it provides services to. In addition, the U.S. Congress may act to amend the Communications Act in a manner that could impact the Company's stations, the stations it provides services to and the television broadcast industry in general.

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Some of the more significant FCC regulatory matters impacting the Company's operations are discussed below.

### ***Digital Television ( DTV ) Conversion***

FCC regulations required all commercial television stations in the United States to commence digital operations on a schedule determined by the FCC and Congress, in addition to continuing their analog operations. All of the television stations Nexstar and Mission own and operate are broadcasting at least a low-power digital television signal, except for KNWA, for which Nexstar has filed a request for extension of time with the FCC. When the FCC acts on the extension request, Nexstar will have at least six months to complete construction of KNWA's DTV facilities. If KNWA is not broadcasting a digital signal by the end of this six-month period Nexstar could be subject to sanctions, including, eventually, loss of the DTV construction permit. The conversion to digital transmission required an average initial capital expenditure of \$0.2 million per station for low-power transmission of a digital signal. Digital conversion expenditures were \$4.8 million and \$2.0 million, respectively, for the six months ended June 30, 2006 and 2005.

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### **NEXSTAR BROADCASTING GROUP, INC.**

#### **NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

##### **11. FCC Regulatory Matters (Continued)**

On February 8, 2006, President Bush signed into law legislation that establishes February 17, 2009 as the deadline for television broadcasters to complete their transition to digital transmission and return their analog spectrum to the FCC. See Note 5 for a discussion of the impact this new legislation is expected to have on the estimated useful lives of certain broadcasting equipment of the Company.

##### ***Full-Power DTV Facilities Construction***

The FCC established dates by which all television stations were required to be broadcasting a full-power DTV signal. As of June 30, 2006, Mission's stations WUTR, WTVO and WYOU and Nexstar's stations WBRE, WROC and KARK are broadcasting with full-power digital signals. Stations that were not able to comply with full-power DTV broadcasting dates were permitted to request an extension of time from the FCC to complete the build-out of their DTV facilities. Nexstar and Mission have filed requests for extension of time to construct full-power DTV facilities for their remaining stations. The FCC has not yet acted on these requests for extension of time.

The Company will incur various capital expenditures to modify the remaining Nexstar and Mission stations' DTV transmitting equipment for full-power digital signal transmission, including costs for the transmitter, transmission line, antenna and installation, and estimated costs for tower upgrades and/or modifications. The Company anticipates these expenditures will be funded through available cash on hand and cash generated from operations as incurred in future years.

##### ***Media Ownership***

On June 21, 2006, the FCC initiated a rulemaking proceeding seeking comment on how to address the issues raised by the U.S. Court of Appeals for the Third Circuit in *Prometheus v. FCC*, which stayed and remanded several media ownership rules that the Commission had adopted in June 2003. The proceeding also opens a comprehensive review of all of the media ownership rules, as required by the Communications Act. The Commission is considering 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. The proceeding, which will include several public hearings to be held throughout the country, will likely extend into 2007. At this time, it is not possible to predict the outcome of any changes, if any, to the FCC's media ownership rules.

##### **12. Commitments and Contingencies**

##### ***Guarantee of Mission Debt***

Nexstar and its subsidiaries guarantee full payment of all obligations incurred under Mission's senior secured credit facility agreement. In the event that Mission is unable to repay amounts due under its credit facility, 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 under the Mission credit facility. At June 30, 2006, Mission had \$171.4 million outstanding under its senior credit facility.

##### ***Indemnification Obligations***

In connection with certain agreements that the Company enters into 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 third 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***

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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 or results of operations.

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**NEXSTAR BROADCASTING GROUP, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**13. Condensed Consolidating Financial Information**

***Senior Discount Notes***

On March 27, 2003, Nexstar Finance Holdings, Inc. ( Nexstar Finance Holdings ), a 100% owned subsidiary of Nexstar, issued 11.375% senior discount notes ( 11.375% Notes ) due in 2013. The 11.375% Notes are fully and unconditionally guaranteed by Nexstar.

The following summarized condensed consolidating financial information is presented in lieu of separate financial statements and other related disclosures of Nexstar Finance Holdings 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 following represents summarized condensed consolidating financial information as of June 30, 2006 and December 31, 2005 with respect to the financial position and for the three and six months ended June 30, 2006 and 2005 for results of operations and for the six months ended June 30, 2006 and 2005 for cash flows of the Company and its 100%, directly or indirectly, owned subsidiaries.

The Nexstar column presents the parent company s financial information. Nexstar is also the guarantor. The Nexstar Finance Holdings column presents the issuer s financial information. The Non-Guarantor Subsidiary column presents the financial information of Nexstar Broadcasting, a 100% owned subsidiary of Nexstar Finance Holdings. Nexstar Broadcasting s financial information includes the accounts of Mission Broadcasting, Inc., an entity which Nexstar Broadcasting is required to consolidate as a VIE under FIN No. 46(R) (see Note 2).

**Table of Contents****NEXSTAR BROADCASTING GROUP, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****13. Condensed Consolidating Financial Information (Continued)****BALANCE SHEET****June 30, 2006****(in thousands)**

|                                                           | Nexstar   | Nexstar Finance Holdings | Non-Guarantor Subsidiary | Eliminations | Consolidated Company |
|-----------------------------------------------------------|-----------|--------------------------|--------------------------|--------------|----------------------|
| <b>ASSETS</b>                                             |           |                          |                          |              |                      |
| Current assets:                                           |           |                          |                          |              |                      |
| Cash and cash equivalents                                 | \$        | \$                       | \$ 12,697                | \$           | \$ 12,697            |
| Other current assets                                      | 7         | 7                        | 58,563                   | (8)          | 58,569               |
| Total current assets                                      | 7         | 7                        | 71,260                   | (8)          | 71,266               |
| Investments in subsidiaries eliminated upon consolidation | 19,923    | 126,829                  |                          | (146,752)    |                      |
| Amounts due from parents eliminated upon consolidation    |           |                          | 5,328                    | (5,328)      |                      |
| Property and equipment, net                               |           |                          | 97,892                   |              | 97,892               |
| Goodwill                                                  |           |                          | 146,258                  |              | 146,258              |
| FCC licenses                                              |           |                          | 138,437                  |              | 138,437              |
| Other intangible assets, net                              |           |                          | 197,430                  |              | 197,430              |
| Other noncurrent assets                                   | 2         | 2,175                    | 13,748                   | (11)         | 15,914               |
| Total assets                                              | \$ 19,932 | \$ 129,011               | \$ 670,353               | \$ (152,099) | \$ 667,197           |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY (DEFICIT)</b>      |           |                          |                          |              |                      |
| Current liabilities:                                      |           |                          |                          |              |                      |
| Current portion of debt                                   | \$        | \$                       | \$ 3,485                 | \$           | \$ 3,485             |
| Other current liabilities                                 |           |                          | 39,431                   | (8)          | 39,423               |
| Total current liabilities                                 |           |                          | 42,916                   | (8)          | 42,908               |
| Debt                                                      |           | 107,113                  | 532,055                  |              | 639,168              |
| Amounts due to subsidiary eliminated upon consolidation   | 3,355     | 1,973                    |                          | (5,328)      |                      |
| Other noncurrent liabilities                              |           | 2                        | 59,927                   | (12)         | 59,917               |
| Total liabilities                                         | 3,355     | 109,088                  | 634,898                  | (5,348)      | 741,993              |
| Stockholders' equity (deficit):                           |           |                          |                          |              |                      |
| Common stock                                              | 284       |                          |                          |              | 284                  |
| Other stockholders' equity (deficit)                      | 16,293    | 19,923                   | 35,455                   | (146,751)    | (75,080)             |
| Total stockholders' equity (deficit)                      | 16,577    | 19,923                   | 35,455                   | (146,751)    | (74,796)             |
| Total liabilities and stockholders' equity (deficit)      | \$ 19,932 | \$ 129,011               | \$ 670,353               | \$ (152,099) | \$ 667,197           |



**Table of Contents****NEXSTAR BROADCASTING GROUP, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****13. Condensed Consolidating Financial Information (Continued)****Balance Sheet****December 31, 2005****(in thousands)**

|                                                           | Nexstar   | Nexstar Finance Holdings | Non-Guarantor Subsidiary | Eliminations | Consolidated Company |
|-----------------------------------------------------------|-----------|--------------------------|--------------------------|--------------|----------------------|
| <b>ASSETS</b>                                             |           |                          |                          |              |                      |
| Current assets:                                           |           |                          |                          |              |                      |
| Cash and cash equivalents                                 | \$        | \$                       | \$ 13,487                | \$           | \$ 13,487            |
| Other current assets                                      |           | 7                        | 61,769                   |              | 61,776               |
| Total current assets                                      |           | 7                        | 75,256                   |              | 75,263               |
| Investments in subsidiaries eliminated upon consolidation | 27,184    | 128,153                  |                          | (155,337)    |                      |
| Amounts due from parents eliminated upon consolidation    |           |                          | 6,112                    | (6,112)      |                      |
| Property and equipment, net                               |           |                          | 98,156                   |              | 98,156               |
| Goodwill                                                  |           |                          | 146,258                  |              | 146,258              |
| FCC licenses                                              |           |                          | 138,437                  |              | 138,437              |
| Other intangible assets, net                              |           |                          | 209,536                  |              | 209,536              |
| Other noncurrent assets                                   | 1         | 2,335                    | 10,105                   | (10)         | 12,431               |
| Total assets                                              | \$ 27,185 | \$ 130,495               | \$ 683,860               | \$ (161,459) | \$ 680,081           |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)</b>     |           |                          |                          |              |                      |
| Current liabilities:                                      |           |                          |                          |              |                      |
| Current portion of debt                                   | \$        | \$                       | \$ 3,485                 | \$           | \$ 3,485             |
| Other current liabilities                                 | 24        |                          | 45,610                   |              | 45,634               |
| Total current liabilities                                 | 24        |                          | 49,095                   |              | 49,119               |
| Debt                                                      |           | 101,336                  | 541,684                  |              | 643,020              |
| Amounts due to subsidiary eliminated upon consolidation   | 4,139     | 1,973                    |                          | (6,112)      |                      |
| Other noncurrent liabilities                              |           | 2                        | 53,976                   | (11)         | 53,967               |
| Total liabilities                                         | 4,163     | 103,311                  | 644,755                  | (6,123)      | 746,106              |
| Stockholders' equity (deficit):                           |           |                          |                          |              |                      |
| Common stock                                              | 284       |                          |                          |              | 284                  |
| Other stockholders' equity (deficit)                      | 22,738    | 27,184                   | 39,105                   | (155,336)    | (66,309)             |
| Total stockholders' equity (deficit)                      | 23,022    | 27,184                   | 39,105                   | (155,336)    | (66,025)             |
| Total liabilities and stockholders' equity (deficit)      | \$ 27,185 | \$ 130,495               | \$ 683,860               | \$ (161,459) | \$ 680,081           |



**Table of Contents****NEXSTAR BROADCASTING GROUP, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****13. Condensed Consolidating Financial Information (Continued)****Statement of Operations****For the Three Months Ended June 30, 2006****(in thousands)**

|                                                                                                                   | <b>Nexstar</b> | <b>Nexstar Finance<br/>Holdings</b> | <b>Non-Guarantor<br/>Subsidiary</b> | <b>Eliminations</b> | <b>Consolidated<br/>Company</b> |
|-------------------------------------------------------------------------------------------------------------------|----------------|-------------------------------------|-------------------------------------|---------------------|---------------------------------|
| Net revenue                                                                                                       | \$             | \$                                  | \$ 64,561                           | \$                  | \$ 64,561                       |
| Operating expenses:                                                                                               |                |                                     |                                     |                     |                                 |
| Direct operating expenses (exclusive of depreciation and amortization shown separately below)                     |                |                                     | 17,705                              |                     | 17,705                          |
| Selling, general, and administrative expenses (exclusive of depreciation and amortization shown separately below) | 33             |                                     | 20,715                              |                     | 20,748                          |
| Amortization of broadcast rights                                                                                  |                |                                     | 4,338                               |                     | 4,338                           |
| Amortization of intangible assets                                                                                 |                |                                     | 6,053                               |                     | 6,053                           |
| Depreciation                                                                                                      |                |                                     | 4,622                               |                     | 4,622                           |
| Loss on asset disposal, net                                                                                       |                |                                     | 16                                  |                     | 16                              |
| Total operating expenses                                                                                          | 33             |                                     | 53,449                              |                     | 53,482                          |
| Income (loss) from operations                                                                                     | (33)           |                                     | 11,112                              |                     | 11,079                          |
| Interest expense, including amortization of debt financing costs                                                  |                | (3,049)                             | (9,850)                             |                     | (12,899)                        |
| Equity in earnings (loss) of subsidiaries                                                                         | (1,446)        | 1,603                               |                                     | (157)               |                                 |
| Other income, net                                                                                                 |                |                                     | 166                                 |                     | 166                             |
| Income (loss) before income taxes                                                                                 | (1,479)        | (1,446)                             | 1,428                               | (157)               | (1,654)                         |
| Income tax expense                                                                                                |                |                                     | (714)                               |                     | (714)                           |
| Net income (loss)                                                                                                 | \$ (1,479)     | \$ (1,446)                          | \$ 714                              | \$ (157)            | \$ (2,368)                      |

**Table of Contents****NEXSTAR BROADCASTING GROUP, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****13. Condensed Consolidating Financial Information (Continued)****Statement of Operations****For the Three Months Ended June 30, 2005****(in thousands)**

|                                                                                                                   | <b>Nexstar</b> | <b>Nexstar Finance<br/>Holdings</b> | <b>Non-Guarantor<br/>Subsidiary</b> | <b>Eliminations</b> | <b>Consolidated<br/>Company</b> |
|-------------------------------------------------------------------------------------------------------------------|----------------|-------------------------------------|-------------------------------------|---------------------|---------------------------------|
| Net revenue                                                                                                       | \$             | \$                                  | \$ 58,662                           | \$                  | \$ 58,662                       |
| Operating expenses:                                                                                               |                |                                     |                                     |                     |                                 |
| Direct operating expenses (exclusive of depreciation and amortization shown separately below)                     |                |                                     | 16,552                              |                     | 16,552                          |
| Selling, general, and administrative expenses (exclusive of depreciation and amortization shown separately below) | 39             |                                     | 18,170                              |                     | 18,209                          |
| Amortization of broadcast rights                                                                                  |                |                                     | 5,282                               |                     | 5,282                           |
| Amortization of intangible assets                                                                                 |                |                                     | 6,647                               |                     | 6,647                           |
| Depreciation                                                                                                      |                |                                     | 4,327                               |                     | 4,327                           |
| Loss on property and asset disposal, net                                                                          |                |                                     | 756                                 |                     | 756                             |
| Total operating expenses                                                                                          | 39             |                                     | 51,734                              |                     | 51,773                          |
| Income (loss) from operations                                                                                     | (39)           |                                     | 6,928                               |                     | 6,889                           |
| Interest expense, including amortization of debt financing costs                                                  |                | (2,737)                             | (8,156)                             |                     | (10,893)                        |
| Loss on extinguishment of debt                                                                                    |                |                                     | (15,715)                            |                     | (15,715)                        |
| Equity in loss of subsidiaries                                                                                    | (18,655)       | (15,918)                            |                                     | 34,573              |                                 |
| Other income, net                                                                                                 |                |                                     | 44                                  |                     | 44                              |
| Loss before income taxes                                                                                          | (18,694)       | (18,655)                            | (16,899)                            | 34,573              | (19,675)                        |
| Income tax expense                                                                                                |                |                                     | (1,253)                             |                     | (1,253)                         |
| Net loss                                                                                                          | \$ (18,694)    | \$ (18,655)                         | \$ (18,152)                         | \$ 34,573           | \$ (20,928)                     |

**Table of Contents****NEXSTAR BROADCASTING GROUP, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****13. Condensed Consolidating Financial Information (Continued)****Statement of Operations****For the Six Months Ended June 30, 2006****(in thousands)**

|                                                                                                                   | <b>Nexstar</b> | <b>Nexstar Finance<br/>Holdings</b> | <b>Non-Guarantor<br/>Subsidiary</b> | <b>Eliminations</b> | <b>Consolidated<br/>Company</b> |
|-------------------------------------------------------------------------------------------------------------------|----------------|-------------------------------------|-------------------------------------|---------------------|---------------------------------|
| Net revenue                                                                                                       | \$             | \$                                  | \$ 124,387                          | \$                  | \$ 124,387                      |
| Operating expenses:                                                                                               |                |                                     |                                     |                     |                                 |
| Direct operating expenses (exclusive of depreciation and amortization shown separately below)                     |                |                                     | 35,093                              |                     | 35,093                          |
| Selling, general, and administrative expenses (exclusive of depreciation and amortization shown separately below) | 68             |                                     | 41,058                              |                     | 41,126                          |
| Amortization of broadcast rights                                                                                  |                |                                     | 9,566                               |                     | 9,566                           |
| Amortization of intangible assets                                                                                 |                |                                     | 12,106                              |                     | 12,106                          |
| Depreciation                                                                                                      |                |                                     | 9,248                               |                     | 9,248                           |
| Loss on asset disposal, net                                                                                       |                |                                     | 80                                  |                     | 80                              |
| Total operating expenses                                                                                          | 68             |                                     | 107,151                             |                     | 107,219                         |
| Income (loss) from operations                                                                                     | (68)           |                                     | 17,236                              |                     | 17,168                          |
| Interest expense, including amortization of debt financing costs                                                  |                | (5,937)                             | (19,204)                            |                     | (25,141)                        |
| Equity in loss of subsidiaries                                                                                    | (7,261)        | (1,324)                             |                                     | 8,585               |                                 |
| Other income, net                                                                                                 |                |                                     | 283                                 |                     | 283                             |
| Loss before income taxes                                                                                          | (7,329)        | (7,261)                             | (1,685)                             | 8,585               | (7,690)                         |
| Income tax expense                                                                                                |                |                                     | (1,965)                             |                     | (1,965)                         |
| Net loss                                                                                                          | \$ (7,329)     | \$ (7,261)                          | \$ (3,650)                          | \$ 8,585            | \$ (9,655)                      |

**Table of Contents****NEXSTAR BROADCASTING GROUP, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****13. Condensed Consolidating Financial Information (Continued)****Statement of Operations****For the Six Months Ended June 30, 2005****(in thousands)**

|                                                                                                                   | <b>Nexstar</b> | <b>Nexstar Finance<br/>Holdings</b> | <b>Non-Guarantor<br/>Subsidiary</b> | <b>Eliminations</b> | <b>Consolidated<br/>Company</b> |
|-------------------------------------------------------------------------------------------------------------------|----------------|-------------------------------------|-------------------------------------|---------------------|---------------------------------|
| Net revenue                                                                                                       | \$             | \$                                  | \$ 111,974                          | \$                  | \$ 111,974                      |
| Operating expenses:                                                                                               |                |                                     |                                     |                     |                                 |
| Direct operating expenses (exclusive of depreciation and amortization shown separately below)                     |                |                                     | 32,749                              |                     | 32,749                          |
| Selling, general, and administrative expenses (exclusive of depreciation and amortization shown separately below) | 78             |                                     | 36,226                              |                     | 36,304                          |
| Amortization of broadcast rights                                                                                  |                |                                     | 11,440                              |                     | 11,440                          |
| Amortization of intangible assets                                                                                 |                |                                     | 13,409                              |                     | 13,409                          |
| Depreciation                                                                                                      |                |                                     | 8,750                               |                     | 8,750                           |
| Loss on property and asset disposal, net                                                                          |                |                                     | 865                                 |                     | 865                             |
| Total operating expenses                                                                                          | 78             |                                     | 103,439                             |                     | 103,517                         |
| Income (loss) from operations                                                                                     | (78)           |                                     | 8,535                               |                     | 8,457                           |
| Interest expense, including amortization of debt financing costs                                                  |                | (5,331)                             | (18,637)                            |                     | (23,968)                        |
| Loss on extinguishment of debt                                                                                    |                |                                     | (15,715)                            |                     | (15,715)                        |
| Equity in loss of subsidiaries                                                                                    | (29,243)       | (23,912)                            |                                     | 53,155              |                                 |
| Other income, net                                                                                                 |                |                                     | 35                                  |                     | 35                              |
| Loss before income taxes                                                                                          | (29,321)       | (29,243)                            | (25,782)                            | 53,155              | (31,191)                        |
| Income tax expense                                                                                                |                |                                     | (2,545)                             |                     | (2,545)                         |
| Net loss                                                                                                          | \$ (29,321)    | \$ (29,243)                         | \$ (28,327)                         | \$ 53,155           | \$ (33,736)                     |

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**NEXSTAR BROADCASTING GROUP, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**13. Condensed Consolidating Financial Information (Continued)**

**Statement of Cash Flows**

**For the Six Months Ended June 30, 2006**

**(in thousands)**

|                                                         | <b>Nexstar</b> | <b>Nexstar Finance<br/>Holdings</b> | <b>Non-Guarantor<br/>Subsidiary</b> | <b>Eliminations</b> | <b>Consolidated<br/>Company</b> |
|---------------------------------------------------------|----------------|-------------------------------------|-------------------------------------|---------------------|---------------------------------|
| <b>Cash flows provided by operating activities</b>      | \$             | \$                                  | \$ 17,387                           | \$                  | \$ 17,387                       |
| <b>Cash flows from investing activities:</b>            |                |                                     |                                     |                     |                                 |
| Additions to property and equipment                     |                |                                     | (8,931)                             |                     | (8,931)                         |
| Other investing activities                              |                |                                     | 503                                 |                     | 503                             |
| <b>Net cash used for investing activities</b>           |                |                                     | (8,428)                             |                     | (8,428)                         |
| <b>Cash flows from financing activities:</b>            |                |                                     |                                     |                     |                                 |
| Repayment of long-term debt                             |                |                                     | (9,743)                             |                     | (9,743)                         |
| Other financing activities                              |                |                                     | (6)                                 |                     | (6)                             |
| <b>Net cash used for financing activities</b>           |                |                                     | (9,749)                             |                     | (9,749)                         |
| <b>Net decrease in cash and cash equivalents</b>        |                |                                     | (790)                               |                     | (790)                           |
| <b>Cash and cash equivalents at beginning of period</b> |                |                                     | 13,487                              |                     | 13,487                          |
| <b>Cash and cash equivalents at end of period</b>       | \$             | \$                                  | \$ 12,697                           | \$                  | \$ 12,697                       |

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### NEXSTAR BROADCASTING GROUP, INC.

#### NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 13. Condensed Consolidating Financial Information (Continued)

##### Statement of Cash Flows

For the Six Months Ended June 30, 2005

(in thousands)

|                                                                   | Nexstar | Nexstar Finance<br>Holdings | Non-Guarantor<br>Subsidiary | Eliminations | Consolidated<br>Company |
|-------------------------------------------------------------------|---------|-----------------------------|-----------------------------|--------------|-------------------------|
| <b>Cash flows used for operating activities</b>                   | \$      | \$                          | \$ (3,748)                  | \$           | \$ (3,748)              |
| <b>Cash flows from investing activities:</b>                      |         |                             |                             |              |                         |
| Additions to property and equipment                               |         |                             | (7,105)                     |              | (7,105)                 |
| Acquisition of broadcast properties and related transaction costs |         |                             | (12,481)                    |              | (12,481)                |
| Other investing activities                                        |         |                             | 94                          |              | 94                      |
| Net cash used for investing activities                            |         |                             | (19,492)                    |              | (19,492)                |
| <b>Cash flows from financing activities:</b>                      |         |                             |                             |              |                         |
| Proceeds from debt issuance                                       |         |                             | 427,375                     |              | 427,375                 |
| Repayment of long-term debt                                       |         |                             | (256,325)                   |              | (256,325)               |
| Proceeds from revolver draws                                      |         |                             | 1,000                       |              | 1,000                   |
| Repayment of senior subordinated notes                            |         |                             | (153,619)                   |              | (153,619)               |
| Payments for debt financing costs                                 |         |                             | (3,436)                     |              | (3,436)                 |
| Net cash provided by financing activities                         |         |                             | 14,995                      |              | 14,995                  |
| Net decrease in cash and cash equivalents                         |         |                             | (8,245)                     |              | (8,245)                 |
| Cash and cash equivalents at beginning of period                  |         |                             | 18,505                      |              | 18,505                  |
| Cash and cash equivalents at end of period                        | \$      | \$                          | \$ 10,260                   | \$           | \$ 10,260               |

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**NEXSTAR BROADCASTING GROUP, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**13. Condensed Consolidating Financial Information (Continued)**

***Senior Subordinated Notes***

On December 30, 2003 and April 1, 2005, Nexstar Broadcasting, a 100% owned subsidiary of Nexstar Finance Holdings, issued 7% senior subordinated notes ( 7% Notes ) due in January 2014. The 7% Notes are fully and unconditionally guaranteed by Nexstar.

The following summarized condensed consolidating financial information is presented in lieu of separate financial statements and other related disclosures of Nexstar Broadcasting 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 following represents summarized condensed consolidating financial information as of June 30, 2006 and December 31, 2005 with respect to the financial position and for the three and six months ended June 30, 2006 and 2005 for results of operations and for the six months ended June 30, 2006 and 2005 for cash flows of Nexstar and its 100%, directly or indirectly, owned subsidiaries and independently-owned Mission Broadcasting, Inc.

The Nexstar column presents the parent company's financial information. Nexstar is also a guarantor. The Nexstar Broadcasting column presents the issuer's financial information. The Mission column presents the financial information of Mission Broadcasting, Inc., an entity which Nexstar Broadcasting is required to consolidate as a VIE under FIN No. 46R (see Note 2). Mission is also a guarantor of the senior subordinated notes issued by Nexstar Broadcasting. The Non-Guarantor Subsidiary column presents the financial information of Nexstar Finance Holdings, the parent of Nexstar Broadcasting.

**Table of Contents****NEXSTAR BROADCASTING GROUP, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****13. Condensed Consolidating Financial Information (Continued)****Balance Sheet****June 30, 2006****(in thousands)**

|                                                           | Nexstar   | Nexstar<br>Broadcasting | Mission    | Non-Guarantor<br>Subsidiary | Eliminations | Consolidated<br>Company |
|-----------------------------------------------------------|-----------|-------------------------|------------|-----------------------------|--------------|-------------------------|
| <b>ASSETS</b>                                             |           |                         |            |                             |              |                         |
| Current assets:                                           |           |                         |            |                             |              |                         |
| Cash and cash equivalents                                 | \$        | \$ 11,443               | \$ 1,254   | \$                          | \$           | \$ 12,697               |
| Due from Mission                                          |           | 20,646                  |            |                             | (20,646)     |                         |
| Other current assets                                      | 7         | 56,745                  | 1,818      | 7                           | (8)          | 58,569                  |
| Total current assets                                      | 7         | 88,834                  | 3,072      | 7                           | (20,654)     | 71,266                  |
| Investments in subsidiaries eliminated upon consolidation | 19,923    |                         |            | 126,829                     | (146,752)    |                         |
| Amounts due from parents eliminated upon consolidation    |           | 5,328                   |            |                             | (5,328)      |                         |
| Property and equipment, net                               |           | 77,844                  | 20,078     |                             | (30)         | 97,892                  |
| Goodwill                                                  |           | 129,607                 | 16,651     |                             |              | 146,258                 |
| FCC licenses                                              |           | 109,701                 | 28,736     |                             |              | 138,437                 |
| Other intangible assets, net                              |           | 152,531                 | 44,899     |                             |              | 197,430                 |
| Other noncurrent assets                                   | 2         | 11,647                  | 2,101      | 2,175                       | (11)         | 15,914                  |
| Total assets                                              | \$ 19,932 | \$ 575,492              | \$ 115,537 | \$ 129,011                  | \$ (172,775) | \$ 667,197              |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)</b>     |           |                         |            |                             |              |                         |
| Current liabilities:                                      |           |                         |            |                             |              |                         |
| Current portion of debt                                   | \$        | \$ 1,758                | \$ 1,727   | \$                          | \$           | \$ 3,485                |
| Due to Nexstar Broadcasting                               |           |                         | 20,646     |                             | (20,646)     |                         |
| Other current liabilities                                 |           | 36,604                  | 2,827      |                             | (8)          | 39,423                  |
| Total current liabilities                                 |           | 38,362                  | 25,200     |                             | (20,654)     | 42,908                  |
| Debt                                                      |           | 362,377                 | 169,678    | 107,113                     |              | 639,168                 |
| Amounts due to subsidiary eliminated upon consolidation   | 3,355     |                         |            | 1,973                       | (5,328)      |                         |
| Other noncurrent liabilities                              |           | 47,924                  | 12,003     | 2                           | (12)         | 59,917                  |
| Total liabilities                                         | 3,355     | 448,663                 | 206,881    | 109,088                     | (25,994)     | 741,993                 |
| Stockholders' equity (deficit):                           |           |                         |            |                             |              |                         |
| Common stock                                              |           | 284                     |            |                             |              | 284                     |
| Other stockholders' equity (deficit)                      | 16,293    | 126,829                 | (91,344)   | 19,923                      | (146,781)    | (75,080)                |
| Total stockholders' equity (deficit)                      | 16,577    | 126,829                 | (91,344)   | 19,923                      | (146,781)    | (74,796)                |
| Total liabilities and stockholders' equity (deficit)      | \$ 19,932 | \$ 575,492              | \$ 115,537 | \$ 129,011                  | \$ (172,775) | \$ 667,197              |



**Table of Contents****NEXSTAR BROADCASTING GROUP, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****13. Condensed Consolidating Financial Information (Continued)****Balance Sheet****December 31, 2005****(in thousands)**

|                                                           | Nexstar   | Nexstar      | Mission    | Non-Guarantor | Eliminations | Consolidated |
|-----------------------------------------------------------|-----------|--------------|------------|---------------|--------------|--------------|
|                                                           | Nexstar   | Broadcasting |            | Subsidiary    |              | Company      |
| <b>ASSETS</b>                                             |           |              |            |               |              |              |
| Current assets:                                           |           |              |            |               |              |              |
| Cash and cash equivalents                                 | \$        | \$ 12,083    | \$ 1,404   | \$            | \$           | \$ 13,487    |
| Due from Mission                                          |           | 22,215       |            |               | (22,215)     |              |
| Other current assets                                      |           | 58,801       | 2,968      | 7             |              | 61,776       |
| Total current assets                                      |           | 93,099       | 4,372      | 7             | (22,215)     | 75,263       |
| Investments in subsidiaries eliminated upon consolidation | 27,184    |              |            | 128,153       | (155,337)    |              |
| Amounts due from parents eliminated upon consolidation    |           | 6,112        |            |               | (6,112)      |              |
| Property and equipment, net                               |           | 77,091       | 21,102     |               | (37)         | 98,156       |
| Goodwill                                                  |           | 129,607      | 16,651     |               |              | 146,258      |
| FCC licenses                                              |           | 109,701      | 28,736     |               |              | 138,437      |
| Intangible assets, net                                    |           | 161,939      | 47,597     |               |              | 209,536      |
| Other noncurrent assets                                   | 1         | 8,759        | 1,346      | 2,335         | (10)         | 12,431       |
| Total assets                                              | \$ 27,185 | \$ 586,308   | \$ 119,804 | \$ 130,495    | \$ (183,711) | \$ 680,081   |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)</b>     |           |              |            |               |              |              |
| Current liabilities:                                      |           |              |            |               |              |              |
| Current portion of debt                                   | \$        | \$ 1,758     | \$ 1,727   | \$            | \$           | \$ 3,485     |
| Due to Nexstar Broadcasting                               |           |              | 22,215     |               | (22,215)     |              |
| Other current liabilities                                 | 24        | 41,774       | 3,836      |               |              | 45,634       |
| Total current liabilities                                 | 24        | 43,532       | 27,778     |               | (22,215)     | 49,119       |
| Debt                                                      |           | 371,143      | 170,541    | 101,336       |              | 643,020      |
| Amounts due to subsidiary eliminated upon consolidation   | 4,139     |              |            | 1,973         | (6,112)      |              |
| Other noncurrent liabilities                              |           | 43,480       | 10,496     | 2             | (11)         | 53,967       |
| Total liabilities                                         | 4,163     | 458,155      | 208,815    | 103,311       | (28,338)     | 746,106      |
| Stockholders' equity (deficit):                           |           |              |            |               |              |              |
| Common stock                                              |           | 284          |            |               |              | 284          |
| Other stockholders' equity (deficit)                      | 22,738    | 128,153      | (89,011)   | 27,184        | (155,373)    | (66,309)     |
| Total stockholders' equity (deficit)                      | 23,022    | 128,153      | (89,011)   | 27,184        | (155,373)    | (66,025)     |
| Total liabilities and stockholders' equity (deficit)      | \$ 27,185 | \$ 586,308   | \$ 119,804 | \$ 130,495    | \$ (183,711) | \$ 680,081   |



**Table of Contents****NEXSTAR BROADCASTING GROUP, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****13. Condensed Consolidating Financial Information (Continued)****Statement of Operations****For the Three Months Ended June 30, 2006****(in thousands)**

|                                                                                                                   | <b>Nexstar</b> | <b>Nexstar<br/>Broadcasting</b> | <b>Mission</b> | <b>Non-Guarantor<br/>Subsidiary</b> | <b>Eliminations</b> | <b>Consolidated<br/>Company</b> |
|-------------------------------------------------------------------------------------------------------------------|----------------|---------------------------------|----------------|-------------------------------------|---------------------|---------------------------------|
| Net broadcast revenue (including trade and barter)                                                                | \$             | \$ 63,182                       | \$ 1,379       | \$                                  | \$                  | \$ 64,561                       |
| Revenue between consolidated entities                                                                             |                | 1,950                           | 7,808          |                                     | (9,758)             |                                 |
| Net revenue                                                                                                       |                | 65,132                          | 9,187          |                                     | (9,758)             | 64,561                          |
| Operating expenses:                                                                                               |                |                                 |                |                                     |                     |                                 |
| Direct operating expenses (exclusive of depreciation and amortization shown separately below)                     |                | 16,540                          | 1,165          |                                     |                     | 17,705                          |
| Selling, general, and administrative expenses (exclusive of depreciation and amortization shown separately below) | 33             | 20,126                          | 589            |                                     |                     | 20,748                          |
| Local service agreement fees between consolidated entities                                                        |                | 7,808                           | 1,950          |                                     | (9,758)             |                                 |
| Amortization of broadcast rights                                                                                  |                | 3,470                           | 868            |                                     |                     | 4,338                           |
| Amortization of intangible assets                                                                                 |                | 4,704                           | 1,349          |                                     |                     | 6,053                           |
| Depreciation                                                                                                      |                | 3,753                           | 873            |                                     | (4)                 | 4,622                           |
| Loss on asset disposal, net                                                                                       |                | 16                              |                |                                     |                     | 16                              |
| Total operating expenses                                                                                          | 33             | 56,417                          | 6,794          |                                     | (9,762)             | 53,482                          |
| Income (loss) from operations                                                                                     | (33)           | 8,715                           | 2,393          |                                     | 4                   | 11,079                          |
| Interest expense, including amortization of debt financing costs                                                  |                | (6,767)                         | (3,083)        | (3,049)                             |                     | (12,899)                        |
| Equity in earnings (loss) of subsidiaries                                                                         | (1,446)        |                                 |                | 1,603                               | (157)               |                                 |
| Other income, net                                                                                                 |                | 154                             | 12             |                                     |                     | 166                             |
| Income (loss) before income taxes                                                                                 | (1,479)        | 2,102                           | (678)          | (1,446)                             | (153)               | (1,654)                         |
| Income tax expense                                                                                                |                | (499)                           | (215)          |                                     |                     | (714)                           |
| Net income (loss)                                                                                                 | \$ (1,479)     | \$ 1,603                        | \$ (893)       | \$ (1,446)                          | \$ (153)            | \$ (2,368)                      |

**Table of Contents****NEXSTAR BROADCASTING GROUP, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****13. Condensed Consolidating Financial Information (Continued)****Statement of Operations****For the Three Months Ended June 30, 2005****(in thousands)**

|                                                                                                                   | <b>Nexstar</b>     | <b>Nexstar<br/>Broadcasting</b> | <b>Mission</b>    | <b>Non-Guarantor<br/>Subsidiary</b> | <b>Eliminations</b> | <b>Consolidated<br/>Company</b> |
|-------------------------------------------------------------------------------------------------------------------|--------------------|---------------------------------|-------------------|-------------------------------------|---------------------|---------------------------------|
| Net broadcast revenue (including trade and barter)                                                                | \$                 | \$ 57,513                       | \$ 1,149          | \$                                  | \$                  | \$ 58,662                       |
| Revenue between consolidated entities                                                                             |                    | 2,850                           | 7,287             |                                     | (10,137)            |                                 |
| <b>Net revenue</b>                                                                                                |                    | <b>60,363</b>                   | <b>8,436</b>      |                                     | <b>(10,137)</b>     | <b>58,662</b>                   |
| Operating expenses:                                                                                               |                    |                                 |                   |                                     |                     |                                 |
| Direct operating expenses (exclusive of depreciation and amortization shown separately below)                     |                    | 15,530                          | 1,022             |                                     |                     | 16,552                          |
| Selling, general, and administrative expenses (exclusive of depreciation and amortization shown separately below) | 39                 | 17,630                          | 540               |                                     |                     | 18,209                          |
| Local service agreement fees between consolidated entities                                                        |                    | 7,287                           | 2,850             |                                     | (10,137)            |                                 |
| Amortization of broadcast rights                                                                                  |                    | 4,232                           | 1,050             |                                     |                     | 5,282                           |
| Amortization of intangible assets                                                                                 |                    | 5,118                           | 1,529             |                                     |                     | 6,647                           |
| Depreciation                                                                                                      |                    | 3,633                           | 698               |                                     | (4)                 | 4,327                           |
| Loss on asset disposal, net                                                                                       |                    | 752                             | 4                 |                                     |                     | 756                             |
| <b>Total operating expenses</b>                                                                                   | <b>39</b>          | <b>54,182</b>                   | <b>7,693</b>      |                                     | <b>(10,141)</b>     | <b>51,773</b>                   |
| <b>Income (loss) from operations</b>                                                                              | <b>(39)</b>        | <b>6,181</b>                    | <b>743</b>        |                                     | <b>4</b>            | <b>6,889</b>                    |
| Interest expense, including amortization of debt financing costs                                                  |                    | (6,016)                         | (2,140)           | (2,737)                             |                     | (10,893)                        |
| Loss on extinguishment of debt                                                                                    |                    | (15,207)                        | (508)             |                                     |                     | (15,715)                        |
| Equity in loss of subsidiaries                                                                                    | (18,655)           |                                 |                   | (15,918)                            | 34,573              |                                 |
| <b>Other income, net</b>                                                                                          |                    | <b>40</b>                       | <b>4</b>          |                                     |                     | <b>44</b>                       |
| <b>Loss before income taxes</b>                                                                                   | <b>(18,694)</b>    | <b>(15,002)</b>                 | <b>(1,901)</b>    | <b>(18,655)</b>                     | <b>34,577</b>       | <b>(19,675)</b>                 |
| <b>Income tax expense</b>                                                                                         |                    | <b>(916)</b>                    | <b>(337)</b>      |                                     |                     | <b>(1,253)</b>                  |
| <b>Net loss</b>                                                                                                   | <b>\$ (18,694)</b> | <b>\$ (15,918)</b>              | <b>\$ (2,238)</b> | <b>\$ (18,655)</b>                  | <b>\$ 34,577</b>    | <b>\$ (20,928)</b>              |

**Table of Contents****NEXSTAR BROADCASTING GROUP, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****13. Condensed Consolidating Financial Information (Continued)****Statement of Operations****For the Six Months Ended June 30, 2006****(in thousands)**

|                                                                                                                   | <b>Nexstar</b> | <b>Nexstar<br/>Broadcasting</b> | <b>Mission</b> | <b>Non-Guarantor<br/>Subsidiary</b> | <b>Eliminations</b> | <b>Consolidated<br/>Company</b> |
|-------------------------------------------------------------------------------------------------------------------|----------------|---------------------------------|----------------|-------------------------------------|---------------------|---------------------------------|
| Net broadcast revenue (including trade and barter)                                                                | \$             | \$ 121,639                      | \$ 2,748       | \$                                  | \$                  | \$ 124,387                      |
| Revenue between consolidated entities                                                                             |                | 3,900                           | 14,784         |                                     | (18,684)            |                                 |
| Net revenue                                                                                                       |                | 125,539                         | 17,532         |                                     | (18,684)            | 124,387                         |
| Operating expenses:                                                                                               |                |                                 |                |                                     |                     |                                 |
| Direct operating expenses (exclusive of depreciation and amortization shown separately below)                     |                | 32,789                          | 2,304          |                                     |                     | 35,093                          |
| Selling, general, and administrative expenses (exclusive of depreciation and amortization shown separately below) | 68             | 39,968                          | 1,090          |                                     |                     | 41,126                          |
| Local service agreement fees between consolidated entities                                                        |                | 14,784                          | 3,900          |                                     | (18,684)            |                                 |
| Amortization of broadcast rights                                                                                  |                | 7,753                           | 1,813          |                                     |                     | 9,566                           |
| Amortization of intangible assets                                                                                 |                | 9,408                           | 2,698          |                                     |                     | 12,106                          |
| Depreciation                                                                                                      |                | 7,601                           | 1,654          |                                     | (7)                 | 9,248                           |
| Loss on asset disposal, net                                                                                       |                | 73                              | 7              |                                     |                     | 80                              |
| Total operating expenses                                                                                          | 68             | 112,376                         | 13,466         |                                     | (18,691)            | 107,219                         |
| Income (loss) from operations                                                                                     | (68)           | 13,163                          | 4,066          |                                     | 7                   | 17,168                          |
| Interest expense, including amortization of debt financing costs                                                  |                | (13,332)                        | (5,872)        | (5,937)                             |                     | (25,141)                        |
| Equity in loss of subsidiaries                                                                                    | (7,261)        |                                 |                | (1,324)                             | 8,585               |                                 |
| Other income, net                                                                                                 |                | 258                             | 25             |                                     |                     | 283                             |
| Income (loss) before income taxes                                                                                 | (7,329)        | 89                              | (1,781)        | (7,261)                             | 8,592               | (7,690)                         |
| Income tax expense                                                                                                |                | (1,413)                         | (552)          |                                     |                     | (1,965)                         |
| Net loss                                                                                                          | \$ (7,329)     | \$ (1,324)                      | \$ (2,333)     | \$ (7,261)                          | \$ 8,592            | \$ (9,655)                      |

**Table of Contents****NEXSTAR BROADCASTING GROUP, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****13. Condensed Consolidating Financial Information (Continued)****Statement of Operations****For the Six Months Ended June 30, 2005****(in thousands)**

|                                                                                                                   | <b>Nexstar</b> | <b>Nexstar<br/>Broadcasting</b> | <b>Mission</b> | <b>Non-Guarantor<br/>Subsidiary</b> | <b>Eliminations</b> | <b>Consolidated<br/>Company</b> |
|-------------------------------------------------------------------------------------------------------------------|----------------|---------------------------------|----------------|-------------------------------------|---------------------|---------------------------------|
| Net broadcast revenue (including trade and barter)                                                                | \$             | \$ 109,399                      | \$ 2,575       | \$                                  | \$                  | \$ 111,974                      |
| Revenue between consolidated entities                                                                             |                | 5,700                           | 13,965         |                                     | (19,665)            |                                 |
| Net revenue                                                                                                       |                | 115,099                         | 16,540         |                                     | (19,665)            | 111,974                         |
| Operating expenses:                                                                                               |                |                                 |                |                                     |                     |                                 |
| Direct operating expenses (exclusive of depreciation and amortization shown separately below)                     |                | 30,714                          | 2,035          |                                     |                     | 32,749                          |
| Selling, general, and administrative expenses (exclusive of depreciation and amortization shown separately below) | 78             | 35,200                          | 1,026          |                                     |                     | 36,304                          |
| Local service agreement fees between consolidated entities                                                        |                | 13,965                          | 5,700          |                                     | (19,665)            |                                 |
| Amortization of broadcast rights                                                                                  |                | 9,207                           | 2,233          |                                     |                     | 11,440                          |
| Amortization of intangible assets                                                                                 |                | 10,237                          | 3,172          |                                     |                     | 13,409                          |
| Depreciation                                                                                                      |                | 7,357                           | 1,400          |                                     | (7)                 | 8,750                           |
| Loss on asset disposal, net                                                                                       |                | 812                             | 53             |                                     |                     | 865                             |
| Total operating expenses                                                                                          | 78             | 107,492                         | 15,619         |                                     | (19,672)            | 103,517                         |
| Income (loss) from operations                                                                                     | (78)           | 7,607                           | 921            |                                     | 7                   | 8,457                           |
| Interest expense, including amortization of debt financing costs                                                  |                | (14,470)                        | (4,167)        | (5,331)                             |                     | (23,968)                        |
| Loss on extinguishment of debt                                                                                    |                | (15,207)                        | (508)          |                                     |                     | (15,715)                        |
| Equity in loss of subsidiaries                                                                                    | (29,243)       |                                 |                | (23,912)                            | 53,155              |                                 |
| Other income, net                                                                                                 |                | 25                              | 10             |                                     |                     | 35                              |
| Loss before income taxes                                                                                          | (29,321)       | (22,045)                        | (3,744)        | (29,243)                            | 53,162              | (31,191)                        |
| Income tax expense                                                                                                |                | (1,867)                         | (678)          |                                     |                     | (2,545)                         |
| Net loss                                                                                                          | \$ (29,321)    | \$ (23,912)                     | \$ (4,422)     | \$ (29,243)                         | \$ 53,162           | \$ (33,736)                     |

**Table of Contents****NEXSTAR BROADCASTING GROUP, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****13. Condensed Consolidating Financial Information (Continued)****Statement of Cash Flows****For the Six Months Ended June 30, 2006****(in thousands)**

|                                                         | <b>Nexstar</b> | <b>Nexstar<br/>Broadcasting</b> | <b>Mission</b> | <b>Non-Guarantor<br/>Subsidiary</b> | <b>Eliminations</b> | <b>Consolidated<br/>Company</b> |
|---------------------------------------------------------|----------------|---------------------------------|----------------|-------------------------------------|---------------------|---------------------------------|
| <b>Cash flows provided by operating activities</b>      | \$             | \$ 16,037                       | \$ 1,350       | \$                                  | \$                  | \$ 17,387                       |
| <b>Cash flows from investing activities:</b>            |                |                                 |                |                                     |                     |                                 |
| Additions to property and equipment                     |                | (8,284)                         | (647)          |                                     |                     | (8,931)                         |
| Other investing activities                              |                | 493                             | 10             |                                     |                     | 503                             |
| <b>Net cash used for investing activities</b>           |                | (7,791)                         | (637)          |                                     |                     | (8,428)                         |
| <b>Cash flows from financing activities:</b>            |                |                                 |                |                                     |                     |                                 |
| Repayment of long-term debt                             |                | (8,880)                         | (863)          |                                     |                     | (9,743)                         |
| Other financing activities                              |                | (6)                             |                |                                     |                     | (6)                             |
| <b>Net cash used for financing activities</b>           |                | (8,886)                         | (863)          |                                     |                     | (9,749)                         |
| <b>Net decrease in cash and cash equivalents</b>        |                | (640)                           | (150)          |                                     |                     | (790)                           |
| <b>Cash and cash equivalents at beginning of period</b> |                | 12,083                          | 1,404          |                                     |                     | 13,487                          |
| <b>Cash and cash equivalents at end of period</b>       | \$             | \$ 11,443                       | \$ 1,254       | \$                                  | \$                  | \$ 12,697                       |

**Table of Contents****NEXSTAR BROADCASTING GROUP, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****13. Condensed Consolidating Financial Information (Continued)****Statement of Cash Flows****For the Six Months Ended June 30, 2005****(in thousands)**

|                                                                   | <b>Nexstar</b> | <b>Nexstar<br/>Broadcasting</b> | <b>Mission</b> | <b>Non-Guarantor<br/>Subsidiary</b> | <b>Eliminations</b> | <b>Consolidated<br/>Company</b> |
|-------------------------------------------------------------------|----------------|---------------------------------|----------------|-------------------------------------|---------------------|---------------------------------|
| <b>Cash flows provided by (used for) operating activities</b>     | \$             | \$ (5,684)                      | \$ 1,936       | \$                                  | \$                  | \$ (3,748)                      |
| <b>Cash flows from investing activities:</b>                      |                |                                 |                |                                     |                     |                                 |
| Additions to property and equipment                               |                | (6,588)                         | (517)          |                                     |                     | (7,105)                         |
| Acquisition of broadcast properties and related transaction costs |                | (6,338)                         | (6,143)        |                                     |                     | (12,481)                        |
| Other investing activities                                        |                | 78                              | 16             |                                     |                     | 94                              |
| Net cash used for investing activities                            |                | (12,848)                        | (6,644)        |                                     |                     | (19,492)                        |
| <b>Cash flows from financing activities:</b>                      |                |                                 |                |                                     |                     |                                 |
| Proceeds from debt issuance                                       |                | 254,675                         | 172,700        |                                     |                     | 427,375                         |
| Repayment of long-term debt                                       |                | (83,585)                        | (172,740)      |                                     |                     | (256,325)                       |
| Proceeds from revolver draws                                      |                | 1,000                           |                |                                     |                     | 1,000                           |
| Repayment of senior subordinated notes                            |                | (153,619)                       |                |                                     |                     | (153,619)                       |
| Payments for debt financing costs                                 |                | (2,646)                         | (790)          |                                     |                     | (3,436)                         |
| Net cash provided by (used for) financing activities              |                | 15,825                          | (830)          |                                     |                     | 14,995                          |
| Net decrease in cash and cash equivalents                         |                | (2,707)                         | (5,538)        |                                     |                     | (8,245)                         |
| Cash and cash equivalents at beginning of period                  |                | 11,524                          | 6,981          |                                     |                     | 18,505                          |
| Cash and cash equivalents at end of period                        | \$             | \$ 8,817                        | \$ 1,443       | \$                                  | \$                  | \$ 10,260                       |

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**NEXSTAR BROADCASTING GROUP, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**14. Related Party Transactions**

Pursuant to a management services agreement, Mission paid compensation to its sole shareholder in the amount of \$0.1 million for each of the three months ended June 30, 2006 and 2005, and \$0.2 million for each of the six months ended June 30, 2006 and 2005, which is included in selling, general and administrative expenses in the Company's condensed consolidated statement of operations.

**15. Subsequent Events**

On July 26, 2006, Nexstar entered into a purchase agreement to acquire substantially all of the assets of WTAJ, the CBS affiliate serving the Altoona-Johnstown, Pennsylvania market, for \$56.0 million in cash from Television Station Group Holdings, LLC ( "TSGH" ). As part of the purchase consideration, Nexstar will also acquire the license and certain assets and contracts of WLYH, the UPN affiliate serving the Harrisburg-Lancaster-Lebanon-York, Pennsylvania market, which is operated by a third party under a grandfathered Time Brokerage Agreement that extends until 2015. WLYH is scheduled to become a CW affiliate in the fall of 2006. In connection with the purchase agreement, on July 26, 2006, Nexstar issued a Letter of Credit to TSGH as a deposit in the amount of \$2.8 million. Nexstar intends to finance the acquisition through borrowings under its senior secured credit facility. The acquisition is expected to close in the fourth quarter of 2006, subject to FCC consent.

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### **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 the unaudited condensed consolidated balance sheet as of June 30, 2006, unaudited condensed consolidated statements of operations for the three and six months ended June 30, 2006 and 2005, unaudited condensed consolidated statements of cash flows for the six months ended June 30, 2006 and 2005 and related notes included elsewhere in this Quarterly Report on Form 10-Q and the financial statements contained in our Annual Report on Form 10-K for the year ended December 31, 2005.

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. and Nexstar Broadcasting, Inc., and "Mission" refers to Mission Broadcasting, Inc. All references to "we," "our," and "us" refer to Nexstar. All references to "the Company" refer to Nexstar and Mission collectively.

As a result of our controlling financial interest in Mission under accounting principles generally accepted in the United States of America ("U.S. GAAP") and in order to present fairly our financial position, results of operations and cash flows, 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. As discussed in Note 2 to our condensed consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q, we have considered the method of accounting under FASB Interpretation No. 46, "Consolidation of Variable Interest Entities," an interpretation on Accounting Research Bulletin No. 51 ("FIN No. 46") as revised in December 2003 ("FIN No. 46R") and have determined that we are required to continue consolidating Mission's financial position, results of operations and cash flows. Therefore, the following discussion and analysis of our financial condition and results of operations includes Mission's financial position and results of operations.

### **Executive Summary**

#### ***Second Quarter 2006 Highlights***

Net revenue increased 10.1% during the second quarter of 2006 compared to the same period in 2005, primarily from the increase in local, national and political advertising revenue and retransmission compensation. Gross local and national advertising revenue on a combined basis increased 9.3% during the second quarter of 2006. Gross political advertising revenue increased 162.3% as the result of the typical cyclical nature of political advertising whereby advertising by candidates for political offices significantly increases in even-numbered election years. Total revenue from the retransmission consent agreements was approximately \$3.0 million for the three months ended June 30, 2006 (which included approximately \$2.0 million of retransmission compensation and approximately \$1.0 million of advertising revenue generated from the retransmission consent agreements), compared to \$0.7 million for the three months ended June 30, 2005.

On June 30, 2006, we and Mission in total made repayments of \$4.9 million to Term Loan B under the senior secured credit facilities, of which \$4.0 million was a voluntary repayment and \$0.9 million were scheduled term loan maturities.

Effective January 1, 2006, we adopted the fair value recognition provisions of SFAS 123(R), using the modified prospective transition method. Under that method, we are required to record compensation expense for all stock options granted, but not yet vested, for the three months ended June 30, 2006. We determine compensation expense based on the options' fair value at their grant date using the Black-Scholes option pricing model. Because we have adopted a prospective transition method, results for prior periods have not been restated. Total compensation cost recognized for the three months ended June 30, 2006 was approximately \$0.4 million (\$0.01 per basic and diluted share) and was included in selling, general and administrative expenses in our condensed consolidated statement of operations.

### ***Overview of Operations***

We owned and operated 29 television stations as of June 30, 2006. Through various local service agreements, we programmed or provided sales and other services to 17 additional television stations, including 15 television stations owned and operated by Mission as of June 30, 2006. All of the stations we program or provide sales and other services to, including Mission, are 100% owned by independent third parties.

The following table summarizes the various local service agreements we had in effect as of June 30, 2006 with Mission:

**Service Agreements**

**TBA Only<sup>(1)</sup>**

WFXP and KHMT

**SSA & JSA<sup>(2)</sup>**

KJTL, KJBO-LP, KOLR, KCIT, KCPN-LP, KAMC, KRBC, KSAN, WUTR,

WFXW, WYOU, KODE and WTVO

**Mission Stations**

- 
- (1) We have a time brokerage agreement ( TBA ) with each of these stations which allows us 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) We have both a shared services agreement ( SSA ) and a joint sales agreement ( JSA ) with each of these stations. The SSA allows the sharing of services including news production, technical maintenance and security, in exchange for our right to receive certain payments from Mission as described in the SSAs. The JSAs permit us to sell and retain a percentage of the net revenue from the station s advertising time in return for monthly payments to Mission of the remaining percentage of net revenue, as described in the JSAs.

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Our ability to receive cash from Mission is governed by these agreements. The arrangements under the SSAs and JSAs have had the effect of us receiving substantially all of the available cash, after debt service costs, generated by the stations listed above. The arrangements under the TBAs have also had the effect of us receiving substantially all of the available cash generated by the TBA stations listed above. We anticipate that we will continue to receive substantially all of the available cash, after payments for debt service costs, generated by the stations listed above.

We also guarantee the obligations incurred under Mission's senior secured credit facility. Similarly, Mission is a guarantor of our senior secured credit facility and the senior subordinated notes we have issued. In consideration of our guarantee of Mission's senior credit facility, the sole shareholder of Mission has granted us a purchase option to acquire the assets and assume the liabilities of each Mission station, subject to FCC consent, 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. These option agreements (which expire on various dates between 2008 and 2014) are freely exercisable or assignable by us without consent or approval by the sole shareholder of Mission.

We do not own Mission or Mission's television stations. However, as a result of our guarantee of the obligations incurred under Mission's senior credit facility and our arrangements under the local service agreements and purchase option agreements with Mission, we are deemed under U.S. GAAP to have a controlling financial interest in Mission while complying with the FCC's rules regarding ownership limits in television markets. In order for both us and Mission to comply with FCC regulations, Mission maintains complete responsibility for and control over programming, finances, personnel and operations of its stations.

### ***Seasonality***

Advertising revenue is positively affected by national and regional political election campaigns, and certain events such as the Olympic Games or the Super Bowl. The 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 resulting from political advertising and advertising aired during the Olympic Games.

### ***Industry Trends***

The Television Bureau of Advertising has forecasted U.S. television advertising revenue in 2006 to increase by approximately 6% - 8% compared to 2005 primarily due to higher political spending this year and advertising spending incurred in conjunction with the Olympic Games in 2006.

Our net revenue increased 11.1% to \$124.4 million for the six months ended June 30, 2006, compared to \$112.0 million for the six months ended June 30, 2005. Our net revenue was higher in 2006 than in 2005 due to several factors, including advertising revenue generated during the coverage of the Olympic Games and an increased demand for political advertising that was favorably affected by the volume of advertising time purchased by campaigns for elective offices and for political issues.

Political revenue was \$4.1 million for the six months ended June 30, 2006, a significant increase over the \$1.1 million for the six months ended June 30, 2005. The demand for political advertising is generally higher in even-numbered years, when congressional and presidential elections occur, than in odd-numbered years. During an election year, political revenue makes up a significant portion of the increase in revenue in that year. Since 2006 is an election year, a significant percentage of the Company's revenue growth in 2006 is expected to be attributable to political revenue. However, even during an election year, political revenue is influenced by geography and the competitiveness of the election races.

Automotive-related advertising, our largest advertising category, represented approximately 24% and 26% of our core local and national advertising revenue for the six months ended June 30, 2006 and 2005, respectively. Our automotive-related advertising decreased approximately 5% for the six months ended June 30, 2006 as compared to the same period in 2005, primarily due to a decline in demand for advertising from this business category. A significant change in this advertising revenue source could materially affect our future results of operations.

### ***Recent Developments***

On February 1, 2006, Nexstar announced that it had reached multi-year retransmission consent agreements with approximately 150 content distributors within the 27 markets in which the Company broadcasts, which in aggregate have approximately 4 million subscribers. The retransmission consent agreements with both the cable operators and direct broadcast satellite providers are expected to generate approximately \$49 million in revenue to the Company over the life of the agreements which range in length from three to five years, with the majority of the agreements having terms of three or four years.

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On April 18, 2006, we and Mission announced that we had filed an application with the FCC for consent for us to sell KFTA Channel 24 (Ft. Smith, Arkansas) to Mission for \$5.6 million. Pending FCC consent, and upon completion of the sale, Mission intends to provide Fox programming to serve the Ft. Smith-Fayetteville-Springdale-Rogers, Arkansas designated market area. Our station KNWA Channel 51, licensed to Rogers, Arkansas, has renewed its affiliation agreement for KNWA to continue as the NBC affiliate in

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Ft. Smith-Fayetteville-Springdale-Rogers, Arkansas through 2014. Upon closing the purchase of KFTA, Mission plans to enter into joint sales and shared services agreements with our station KNWA whereby KNWA will provide local news, sales and other non-programming services to KFTA.

On May 22, 2006, two subsidiaries of Equity Broadcasting Corporation filed a petition to deny against the KFTA assignment application alleging that we improperly control Mission and its stations. On June 6, 2006, we and Mission submitted a joint opposition. The FCC is currently in the process of considering the KFTA assignment application. Although Nexstar's and Mission's management believe that the petition has no merit, it is not possible to predict what action the FCC will take on the petition to deny, or when it will take such action.

On July 26, 2006, Nexstar entered into a purchase agreement to acquire substantially all of the assets of WTAJ, the CBS affiliate serving the Altoona-Johnstown, Pennsylvania market, for \$56.0 million in cash from Television Station Group Holdings, LLC ( "TSGH"). As part of the purchase consideration, Nexstar will also acquire the license and certain assets and contracts of WLYH, the UPN affiliate serving the Harrisburg-Lancaster-Lebanon-York, Pennsylvania market, which is operated by a third party under a grandfathered Time Brokerage Agreement that extends until 2015. WLYH is scheduled to become a CW affiliate in the fall of 2006. In connection with the purchase agreement, on July 26, 2006, Nexstar issued a Letter of Credit to TSGH as a deposit in the amount of \$2.8 million. Nexstar intends to finance the acquisition through borrowings under its senior secured credit facility. The acquisition is expected to close in the fourth quarter of 2006, subject to FCC consent.

## Historical Performance

### Revenue

The following table sets forth the principal types of revenue earned by the Company's stations for the periods indicated and each type of revenue (other than trade and barter) as a percentage of total gross revenue, as well as agency commissions:

|                             | Three Months Ended June 30,        |       |           |       | Six Months Ended June 30,          |       |            |       |
|-----------------------------|------------------------------------|-------|-----------|-------|------------------------------------|-------|------------|-------|
|                             | 2006                               |       | 2005      |       | 2006                               |       | 2005       |       |
|                             | Amount                             | %     | Amount    | %     | Amount                             | %     | Amount     | %     |
|                             | (in thousands, except percentages) |       |           |       | (in thousands, except percentages) |       |            |       |
| Local                       | \$ 42,928                          | 62.8  | \$ 38,870 | 63.8  | \$ 82,137                          | 62.8  | \$ 74,091  | 64.2  |
| National                    | 19,241                             | 28.2  | 18,035    | 29.6  | 36,672                             | 28.1  | 33,812     | 29.3  |
| Political                   | 2,198                              | 3.2   | 838       | 1.4   | 4,060                              | 3.1   | 1,132      | 1.0   |
| Retransmission compensation | 2,047                              | 3.0   | 661       | 1.1   | 4,053                              | 3.1   | 1,160      | 1.0   |
| Network compensation        | 1,039                              | 1.5   | 1,729     | 2.8   | 2,088                              | 1.6   | 3,659      | 3.2   |
| Other                       | 872                                | 1.3   | 782       | 1.3   | 1,726                              | 1.3   | 1,570      | 1.3   |
| Total gross revenue         | 68,325                             | 100.0 | 60,915    | 100.0 | 130,736                            | 100.0 | 115,424    | 100.0 |
| Less: Agency commissions    | 8,096                              | 11.8  | 7,238     | 11.9  | 15,386                             | 11.8  | 13,585     | 11.8  |
| Net broadcast revenue       | 60,229                             | 88.2  | 53,677    | 88.1  | 115,350                            | 88.2  | 101,839    | 88.2  |
| Trade and barter revenue    | 4,332                              |       | 4,985     |       | 9,037                              |       | 10,135     |       |
| Net revenue                 | \$ 64,561                          |       | \$ 58,662 |       | \$ 124,387                         |       | \$ 111,974 |       |

### Results of Operations

The following table sets forth a summary of the Company's operations for the periods indicated and their percentages of net revenue:

| Three Months Ended June 30, |   |        |   | Six Months Ended June 30, |   |        |   |
|-----------------------------|---|--------|---|---------------------------|---|--------|---|
| 2006                        |   | 2005   |   | 2006                      |   | 2005   |   |
| Amount                      | % | Amount | % | Amount                    | % | Amount | % |

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|                                                    | (in thousands, except percentages) |       |           |       | (in thousands, except percentages) |       |            |       |
|----------------------------------------------------|------------------------------------|-------|-----------|-------|------------------------------------|-------|------------|-------|
| Net revenue                                        | \$ 64,561                          | 100.0 | \$ 58,662 | 100.0 | \$ 124,387                         | 100.0 | \$ 111,974 | 100.0 |
| Operating expenses:                                |                                    |       |           |       |                                    |       |            |       |
| Corporate expenses                                 | 3,752                              | 5.8   | 2,491     | 4.2   | 6,969                              | 5.6   | 5,513      | 4.9   |
| Station direct operating expenses, net of trade    | 15,884                             | 24.6  | 14,602    | 24.9  | 31,674                             | 25.5  | 29,273     | 26.1  |
| Selling, general and administrative expenses       | 16,996                             | 26.3  | 15,718    | 26.8  | 34,157                             | 27.5  | 30,791     | 27.5  |
| Loss on property held for sale                     |                                    |       | 616       | 1.1   |                                    |       | 616        | 0.6   |
| Loss on asset disposal, net                        | 16                                 |       | 140       | 0.2   | 80                                 | 0.1   | 249        | 0.2   |
| Trade and barter expense                           | 4,272                              | 6.6   | 4,936     | 8.4   | 9,002                              | 7.2   | 9,935      | 8.9   |
| Depreciation and amortization                      | 10,675                             | 16.5  | 10,974    | 18.7  | 21,354                             | 17.2  | 22,159     | 19.8  |
| Amortization of broadcast rights, excluding barter | 1,887                              | 2.9   | 2,296     | 3.9   | 3,983                              | 3.2   | 4,981      | 4.4   |
| Income from operations                             | \$ 11,079                          |       | \$ 6,889  |       | \$ 17,168                          |       | \$ 8,457   |       |

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### ***Three Months Ended June 30, 2006 Compared to Three Months Ended June 30, 2005.***

#### ***Revenue***

Gross local advertising revenue was \$42.9 million for the three months ended June 30, 2006, compared to \$38.9 million for the same period in 2005, an increase of \$4.0 million, or 10.4%. Gross national advertising revenue was \$19.2 million for the three months ended June 30, 2006, compared to \$18.0 million for the same period in 2005, an increase of \$1.2 million, or 6.7%. The combined increase in gross local and national advertising revenue of \$5.2 million was primarily the result of (1) revenue generated for the three months ended June 30, 2006 from the outsourcing agreement that commenced in September 2005 between Nexstar and WUHF, the Fox affiliate in Rochester, New York, owned by a subsidiary of Sinclair Broadcasting Group, Inc. (Sinclair) and (2) advertising revenue from new local customers which increased by approximately \$0.9 million compared to the same period in 2005. Advertising revenue from the Automotive and Fast Food/Restaurant business categories, which decreased by approximately \$0.9 million and \$0.2 million during the second quarter of 2006 compared to the prior year, respectively, were offset by advertising revenue from the Furniture and Paid Programming business categories, which increased by approximately \$0.5 million and \$0.4 million during the second quarter of 2006 compared to the prior year, respectively.

Gross political advertising revenue was \$2.2 million for the three months ended June 30, 2006, compared to \$0.8 million for the same period in 2005, an increase of \$1.4 million, or 162.3%. The increase in gross political revenue was attributed to statewide and/or local races in New York, Pennsylvania, Illinois, Texas and Arkansas that occurred during the three months ended June 30, 2006 as compared to nominal political advertising during the three months ended June 30, 2005.

Retransmission compensation was \$2.0 million for the three months ended June 30, 2006, compared to \$0.7 million for the same period in 2005, an increase of \$1.3 million, or 209.7%. The increase in retransmission compensation was primarily the result of a significant increase in the number of retransmission consent agreements with compensation terms entered into with content distributors, the majority of which were completed in late 2005.

#### ***Operating Expenses***

Corporate expenses, related to costs associated with the centralized management of Nexstar's and Mission's stations, were \$3.8 million for the three months ended June 30, 2006, compared to \$2.5 million for the three months ended June 30, 2005, an increase of \$1.3 million, or 50.6%. The increase during the three months ended June 30, 2006 was primarily attributed to higher compensation costs associated with Nexstar's stock-based compensation expense that was not previously expensed and a higher amount of incentive compensation in recognition of operating performance accrued in the second quarter of 2006.

Station direct operating expenses, consisting primarily of news, engineering and programming, net of trade, and selling, general and administrative expenses were \$32.9 million for the three months ended June 30, 2006, compared to \$30.3 million for the same period in 2005, an increase of \$2.6 million, or 8.4%. The increase in station direct operating expenses, net of trade, and selling, general and administrative expenses for the three months ended June 30, 2006 was primarily attributed to (1) an increase in outside services related to the payments made to Sinclair for the WUHF outsourcing agreement that commenced in September 2005, (2) an increase in sales commissions associated with the increase in the Company's local and national advertising revenue, (3) an increase in programming costs primarily due to film reimbursements and music licenses for WUHF, and (4) an increase in news department costs.

Loss on property held for sale, which represented a write-down of vacated buildings at two of our television stations, was \$0.6 million for the three months ended June 30, 2005.

Amortization of broadcast rights, excluding barter, was \$1.9 million for the three months ended June 30, 2006, compared to \$2.3 million for the same period in 2005, a decrease of \$0.4 million, or 17.8%. The decrease was primarily attributed to broadcast rights being replaced with negotiated lower cost of broadcast programming and a decline in write downs of broadcast programming during the second quarter of 2006 compared to the same period last year.

Amortization of intangible assets was \$6.1 million for the three months ended June 30, 2006, compared to \$6.6 million for the same period in 2005, a decrease of \$0.5 million, or 8.9%. The decrease was primarily related to intangible assets at certain stations becoming fully amortized.

Depreciation of property and equipment was \$4.6 million for the three months ended June 30, 2006, as compared to \$4.3 million for the same period in 2005, an increase of \$0.3 million, or 6.8%. The increase was primarily attributed to accelerating the depreciation of certain assets due to the Company's reassessment of their estimated remaining useful lives. The increase in depreciation was partially offset by assets at certain stations becoming fully depreciated after June 30, 2005.



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### ***Income from Operations***

Income from operations was \$11.1 million for the three months ended June 30, 2006, compared to \$6.9 million for the same period in 2005, an increase of \$4.2 million, or 60.8%. The increase in income from operations for the three months ended June 30, 2006 was primarily attributable to the increase in net revenue, particularly in local advertising revenue, partially offset by an increase in station direct operating expenses, net of trade, and selling, general and administrative expenses as described above.

### ***Interest Expense***

Interest expense, including amortization of debt financing costs, was \$12.9 million for the three months ended June 30, 2006, compared to \$10.9 million for the same period in 2005, a increase of \$2.0 million, or 18.4%. The increase in interest expense was primarily attributed to higher interest rates in 2006 under our and Mission's senior credit facilities, partially offset by a decrease in the amount of debt outstanding in 2006 under our and Mission's senior credit facilities.

### ***Loss on Extinguishment of Debt***

Loss on extinguishment of debt of \$15.7 million for the three months ended June 30, 2005 consisted of \$9.6 million in call premium related to the redemption of the \$160.0 million in aggregate principal amount of 12% senior subordinated notes ( 12% Notes ) in April 2005, accelerated amortization of \$3.4 million of unamortized discount on the 12% Notes, the write off of approximately \$3.6 million of certain debt financing costs previously capitalized on the 12% Notes, the write off of \$0.4 million of previously capitalized debt financing costs and \$1.0 million of transaction costs related to the refinancing of the senior secured credit facilities for Nexstar and Mission in April, 2005, net of a gain of \$2.3 million from the write off of a SFAS No. 133 fair value hedge adjustment of the carrying amount of the 12% Notes.

### ***Income Taxes***

Income taxes decreased by 0.5 million, or 43.0% for the three months ended June 30, 2006 compared to the same period in 2005. The decrease in income taxes was primarily due to a \$0.5 million reduction in our net deferred tax liabilities position resulting from enactment of the new Texas Margin Tax in the second quarter of 2006. Our provision for income taxes is primarily created by an increase in the deferred tax liabilities position during the year arising from the amortizing of goodwill and other indefinite-lived intangible assets for income tax purposes which are not amortized for financial reporting purposes. This expense has no impact on our cash flows. No tax benefit was recorded with respect to the losses for 2006 and 2005, as the utilization of such losses is not likely to be realized in the foreseeable future.

### ***Six Months Ended June 30, 2006 Compared to Six Months Ended June 30, 2005.***

### ***Revenue***

Gross local advertising revenue was \$82.1 million for the six months ended June 30, 2006, compared to \$74.1 million for the same period in 2005, an increase of \$8.0 million, or 10.9%. Gross national advertising revenue was \$36.7 million for the six months ended June 30, 2006, compared to \$33.8 million for the same period in 2005, an increase of \$2.9 million, or 8.5%. The combined increase in gross local and national advertising revenue of \$10.9 million was primarily the result of (1) revenue generated for the six months ended June 30, 2006 from the outsourcing agreement that commenced in September 2005 between Nexstar and WUHF, the Fox affiliate in Rochester, New York, owned by a subsidiary of Sinclair, (2) advertising revenue generated during the coverage of the Olympic Games that took place in February 2006, a portion of which was incremental to those time periods and (3) advertising revenue from new local customers which increased by approximately \$1.6 million compared to the same period in 2005. Advertising revenue from the Automotive business category, which decreased by approximately \$1.6 million during the first six months of 2006 compared to the prior year, was offset by advertising revenue from the Fast Food/Restaurant, Furniture and Paid Programming business categories, which increased by approximately \$0.5 million, \$0.8 million and \$0.9 million during the first six months of 2006 compared to the prior year, respectively.

Gross political advertising revenue was \$4.1 million for the six months ended June 30, 2006, compared to \$1.1 million for the same period in 2005, an increase of \$3.0 million, or 258.7%. The increase in gross political revenue was attributed to statewide and/or local races in New York, Pennsylvania, Illinois, Texas and Arkansas that occurred during the six months ended June 30, 2006 as compared to nominal political advertising during the six months ended June 30, 2005.

Retransmission compensation was \$4.1 million for the six months ended June 30, 2006, compared to \$1.2 million for the same period in 2005, an increase of \$2.9 million, or 249.4%. The increase in retransmission compensation was primarily the result of a significant increase in the number of retransmission consent agreements with compensation terms entered into with content distributors, the majority of which were

completed in late 2005.

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### ***Operating Expenses***

Corporate expenses, related to costs associated with the centralized management of Nexstar's and Mission's stations, were \$7.0 million for the six months ended June 30, 2006, compared to \$5.5 million for the six months ended June 30, 2005, an increase of \$1.5 million, or 26.4%. The increase during the six months ended June 30, 2006 was primarily attributed to higher compensation costs associated with Nexstar's stock-based compensation expense that was not previously expensed and a higher amount of incentive compensation in recognition of operating performance accrued in the first six months of 2006, partially offset by a decrease in professional services fees incurred during the first six months of 2006.

Station direct operating expenses, consisting primarily of news, engineering and programming, net of trade, and selling, general and administrative expenses were \$65.8 million for the six months ended June 30, 2006, compared to \$60.1 million for the same period in 2005, an increase of \$5.7 million, or 9.6%. The increase in station direct operating expenses, net of trade, and selling, general and administrative expenses for the six months ended June 30, 2006 was primarily attributed to (1) an increase in outside services related to the payments made to Sinclair for the WUHF outsourcing agreement that commenced in September 2005, (2) an increase in sales commissions associated with the increase in the Company's local and national advertising revenue, (3) an increase in programming costs primarily due to film reimbursements and music licenses for WUHF, and (4) an increase in news department costs.

Loss on property held for sale, which represented a write-down of vacated buildings at two of our television stations, was \$0.6 million for the six months ended June 30, 2005.

Amortization of broadcast rights, excluding barter, was \$4.0 million for the six months ended June 30, 2006, compared to \$5.0 million for the same period in 2005, a decrease of \$1.0 million, or 20.0%. The decrease was primarily attributed to broadcast rights being replaced with negotiated lower cost of broadcast programming and a decline in write downs of broadcast programming during the first six months of 2006 compared to the same period last year.

Amortization of intangible assets was \$12.1 million for the six months ended June 30, 2006, compared to \$13.4 million for the same period in 2005, a decrease of \$1.3 million, or 9.7%. The decrease was primarily related to intangible assets at certain stations becoming fully amortized.

Depreciation of property and equipment was \$9.2 million for the six months ended June 30, 2006, as compared to \$8.8 million for the same period in 2005, an increase of \$0.4 million, or 5.7%. The increase was primarily attributed to accelerating the depreciation of certain assets due to the Company's reassessment of their estimated remaining useful lives. The increase in depreciation was partially offset by assets at certain stations becoming fully depreciated after June 30, 2005.

### ***Income from Operations***

Income from operations was \$17.2 million for the six months ended June 30, 2006, compared to \$8.5 million for the same period in 2005, an increase of \$8.7 million, or 103.0%. The increase in income from operations for the six months ended June 30, 2006 was primarily attributable to the increase in net revenue, particularly in local advertising revenue, partially offset by an increase in station direct operating expenses, net of trade, and selling, general and administrative expenses as described above.

### ***Interest Expense***

Interest expense, including amortization of debt financing costs, was \$25.1 million for the six months ended June 30, 2006, compared to \$24.0 million for the same period in 2005, an increase of \$1.1 million, or 4.9%. The increase in interest expense was primarily attributed to the issuance of \$75.0 million of 7% senior subordinated notes at a price of 98.01% ( 7% Notes ) in April 2005, and higher interest rates in 2006 under our and Mission's senior credit facilities, partially offset by the redemption of the 12% Notes in April 2005 and a decrease in the amount of debt outstanding in 2006 under our and Mission's senior credit facilities.

### ***Loss on Extinguishment of Debt***

Loss on extinguishment of debt of \$15.7 million for the six months ended June 30, 2005 consisted of \$9.6 million in call premium related to the redemption of the 12% Notes in April 2005, accelerated amortization of \$3.4 million of unamortized discount on the 12% Notes, the write off of approximately \$3.6 million of certain debt financing costs previously capitalized on the 12% Notes, the write off of \$0.4 million of previously capitalized debt financing costs and \$1.0 million of transaction costs related to the refinancing of the senior secured credit facilities for Nexstar and Mission in April, 2005, net of a gain of \$2.3 million from the write off of a SFAS No. 133 fair value hedge adjustment of the carrying amount of the 12% Notes.

***Income Taxes***

Income taxes decreased by \$0.6 million, or 22.8% for the six months ended June 30, 2006 compared to the same period in 2005. The decrease in income taxes was primarily due to a \$0.5 million reduction in our net deferred tax liabilities position resulting from enactment of the new Texas Margin Tax in the second quarter of 2006. Our provision for income taxes is primarily created by an increase in the deferred tax liabilities position during the year arising from the amortizing of goodwill and other indefinite-lived

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intangible assets for income tax purposes which are not amortized for financial reporting purposes. This expense has no impact on our cash flows. No tax benefit was recorded with respect to the losses for 2006 and 2005, as the utilization of such losses is not likely to be realized in the foreseeable future.

**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 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 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 available 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:

|                                                                  | <b>Six Months Ended</b> |                     |
|------------------------------------------------------------------|-------------------------|---------------------|
|                                                                  | <b>June 30,</b>         |                     |
|                                                                  | <b>2006</b>             | <b>2005</b>         |
|                                                                  | <b>(in thousands)</b>   |                     |
| Net cash provided by (used for) operating activities             | \$ 17,387               | \$ (3,748)          |
| Net cash used for investing activities                           | (8,428)                 | (19,492)            |
| Net cash provided by (used for) financing activities             | (9,749)                 | 14,995              |
| Net decrease in cash and cash equivalents                        | \$ (790)                | \$ (8,245)          |
| Cash paid for interest, net                                      | \$ 18,742               | \$ 27,882           |
| Cash paid (refunded) for income taxes, net                       | \$ 31                   | \$ (126)            |
|                                                                  | <b>June 30,</b>         | <b>December 31,</b> |
|                                                                  | <b>2006</b>             | <b>2005</b>         |
|                                                                  | <b>(in thousands)</b>   |                     |
| Cash and cash equivalents                                        | \$ 12,697               | \$ 13,487           |
| Long-term debt including current portion                         | \$ 642,653              | \$ 646,505          |
| Unused commitments under senior credit facilities <sup>(1)</sup> | \$ 97,500               | \$ 97,500           |

<sup>(1)</sup> Based on covenant calculations as of June 30, 2006, there was approximately \$28.4 million of total available borrowings that could be drawn under the Nexstar and Mission senior secured credit facilities.

**Cash Flows - Operating Activities**

The comparative net cash flows from operating activities increased by \$21.1 million during the six months ended June 30, 2006 compared to the same period in 2005. The increase was primarily due to better operating results as reflected in the \$8.4 million decrease in net loss (excluding loss on extinguishment of debt), an increase of \$3.9 million in cash flows from accounts payable and accrued expenses, an increase of \$2.3 million in cash flows from interest payable (due to the redemption of the 12% Notes in April 2005, partially offset by the issuance of \$75.0 million of 7% Notes in April 2005) and a decrease of \$16.0 million in cash payments associated with the extinguishment of debt in April 2005, partially offset by a decrease of \$6.4 million in cash flows from accounts receivable.

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Cash paid for interest decreased by \$9.1 million during the six months ended June 30, 2006 compared to the same period in 2005. Cash payments of interest for the six months ended June 30, 2005 included \$9.6 million for the 12% Notes, along with the original \$6.4 million discount related to the 12% Notes. The decrease in cash paid for interest for the six months ended June 30, 2006 compared to the same period in 2005 was partially offset by an increase in cash payments of interest on our and Mission's bank debt. Cash payments of interest on our and Mission's senior credit facilities were \$11.7 million for the six months ended June 30, 2006, compared to \$7.5 million for the six months ended June 30, 2005, an increase of \$4.2 million due to higher interest rates and a greater amount of debt outstanding in 2006 on the respective credit facilities.

Nexstar and its subsidiaries file a consolidated federal income tax return. Mission files its own separate federal income tax return. Additionally, Nexstar and Mission file their own state and local tax returns as are required. Due to our and Mission's recent history of net operating losses, we and Mission currently do not pay any federal income taxes. These net operating losses may be carried forward, subject to expiration and certain limitations, and used to reduce taxable earnings in future years. Through the use of available loss carryforwards, it is possible that we and Mission may not pay significant amounts of federal income taxes in the foreseeable future.

**Table of Contents****Cash Flows Investing Activities**

The comparative net cash used for investing activities decreased by \$11.1 million during the six months ended June 30, 2006 compared to the same period in 2005. Cash flows from investing activities consist primarily of cash used for capital additions and station acquisitions. The decrease was due to a decrease in acquisition related payments, partially offset by an increase in purchases of property and equipment.

Capital expenditures were \$8.9 million for the six months ended June 30, 2006, compared to \$7.1 million for the six months ended June 30, 2005. The increase was primarily attributable to digital conversion expenditures, which increased from \$2.0 million for the six months ended June 30, 2005 to \$4.8 million for the same period in 2006. We project that 2006 full-year capital expenditures will be approximately \$22.0 million.

There was no cash used for station acquisitions for the six months ended June 30, 2006, compared to \$12.5 million for the same period in 2005. Acquisition related payments for the six months ended June 30, 2005 included the remaining payments of \$5.75 million and \$6.0 million, exclusive of transaction costs, for Mission's acquisition of WTVO and our acquisition of KFTA/KNWA, respectively.

**Cash Flows Financing Activities**

The comparative net cash from financing activities decreased by \$24.7 million during the six months ended June 30, 2006 compared to the same period in 2005, primarily due to the amount of net proceeds received from refinancing our and Mission's long-term debt obligations in April 2005 and an increase in repayments during 2006 under our and Mission's senior secured credit facilities. The decrease was partially offset by payments of debt financing costs of \$3.4 million made in connection with the April 2005 refinancing of our and Mission's long-term debt obligations.

The April 2005 refinancing of our and Mission's long-term debt obligations provided the Company net cash proceeds of \$19.0 million, before the payment of transaction fees and expenses, consisting of gross proceeds obtained under senior credit facility term loans and our issuance of 7% Notes of \$427.4 million and the repayments of previous senior credit facility term and revolving borrowings and our 12% Notes of \$408.4 million.

During the six months ended June 30, 2006, there were \$9.7 million of repayments under our and Mission's senior secured credit facilities, consisting of scheduled term loan maturities of \$1.7 million and voluntary repayments of \$8.0 million of term loans.

During the six months ended June 30, 2005, there were \$0.6 million of scheduled term loan maturities, \$1.0 million of revolving loan repayments and \$1.0 million of revolving loan borrowings under our and Mission's senior secured credit facilities.

Although the Nexstar and Mission senior credit facilities now allow for the payment of cash dividends to common stockholders, we and Mission do not currently intend to declare or pay a cash dividend.

**Future Sources of Financing and Debt Service Requirements**

As of June 30, 2006, Nexstar and Mission had total combined debt of \$642.7 million, which represented 113.2% 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 following table summarizes the approximate aggregate amount of principal indebtedness scheduled to mature for the periods referenced as of June 30, 2006:

|                                               | Remainder  |         |                             |           |            |
|-----------------------------------------------|------------|---------|-----------------------------|-----------|------------|
|                                               | Total      | of 2006 | 2007-2008<br>(in thousands) | 2009-2010 | Thereafter |
| Nexstar senior credit facility <sup>(1)</sup> | \$ 166,481 | \$ 879  | \$ 3,516                    | \$ 3,516  | \$ 158,570 |
| Mission senior credit facility <sup>(1)</sup> | 171,405    | 864     | 3,454                       | 3,454     | 163,633    |
| 7% senior subordinated notes due 2014         | 200,000    |         |                             |           | 200,000    |

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|                                                       |            |          |           |          |            |
|-------------------------------------------------------|------------|----------|-----------|----------|------------|
| 11.375% senior discount notes due 2013 <sup>(2)</sup> | 130,000    | 46,906   | 83,094    |          |            |
|                                                       | \$ 667,886 | \$ 1,743 | \$ 53,876 | \$ 6,970 | \$ 605,297 |

(1) Quarterly principal payments under the Nexstar and Mission senior credit facility term loans commenced on December 30, 2005.

(2) On April 1, 2008, Nexstar is required to redeem a principal amount of notes outstanding sufficient to ensure that the notes will not be applicable high yield discount obligations within the meaning of Section 163(i)(1) of the Internal Revenue Code of 1986.

We make semiannual interest payments on our 7% Notes of \$7.0 million on January 15<sup>th</sup> and July 15<sup>th</sup>. The 11.375% senior discount notes ( 11.375% Notes ) will not begin to accrue cash interest until April 1, 2008. Commencing October 1, 2008 we will make semiannual interest payments on our 11.375% Notes on April 1<sup>st</sup> and October 1<sup>st</sup>. Interest payments on our and Mission's senior credit facilities are generally paid every one to three months and are payable based on the type of interest rate selected.

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The terms of the Nexstar and Mission senior credit facilities, as well as the indentures governing our publicly-held 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, or obtain access to, new credit facilities or otherwise issue debt in the future and could increase the cost of such facilities.

### ***Debt Covenants***

Our bank credit facility agreement contains covenants which require us to comply with certain financial ratios, including: (a) maximum total and senior leverage ratios, (b) a minimum interest coverage ratio, and (c) a minimum fixed charge coverage ratio. The covenants, which are formally calculated on a quarterly basis, are based on the combined results of our indirect subsidiary Nexstar Broadcasting and Mission. The senior subordinated notes and senior discount notes contain restrictive covenants customary for borrowing arrangements of this type. Mission's bank credit facility agreement does not contain financial covenant ratio requirements, but does provide for default in the event Nexstar does not comply with all covenants contained in its credit agreement.

As of June 30, 2006, we were in compliance with all covenants contained in the credit agreements governing our senior secured credit facility and the indentures governing the publicly-held notes. We anticipate compliance with all the covenants through December 31, 2006. For a discussion of the financial ratio requirements of these covenants, we refer you to Note 8 of our condensed consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q.

### ***Cash Requirements for Digital Television ( DTV ) Conversion***

It will be expensive to convert our and Mission's stations from the current analog format to the digital broadcast format. This conversion required an average initial capital expenditure of approximately \$0.2 million per station for low-power transmission of digital signal programming. Except for KNSA, all of the television stations we and Mission own and operate are broadcasting at least a low-power digital television signal. Digital conversion expenditures were \$4.8 million and \$2.0 million for the six months ended June 30, 2006 and 2005, respectively.

We estimate that it will require an average capital expenditure of approximately \$1.5 million per station (for 36 stations) to modify our and Mission's remaining stations' DTV transmitting equipment for full-power digital signal transmission, including costs for the transmitter, transmission line, antenna and installation, and estimated costs for tower upgrades and/or modifications. We anticipate these expenditures will be funded through available cash on hand and cash generated from operations as incurred in future years. The FCC established dates by which all television stations were required to be broadcasting a full-power DTV signal. As of June 30, 2006, only Mission's stations WUTR, WTVO and WYOU and Nexstar's stations WBRE, WROC and KARK are broadcasting with full-power digital signals. Stations that were not able to comply with full-power DTV broadcasting dates were permitted to request an extension of time from the FCC to complete the build-out of their DTV facilities. We and Mission have filed requests for extension of time to construct full-power DTV facilities for our remaining stations. The FCC has not yet acted on these requests for extension of time.

### ***No Off-Balance Sheet Arrangements***

At June 30, 2006, 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. 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***

Our condensed consolidated financial statements have been prepared in accordance with U.S. GAAP which requires 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 intangible assets, bad debts, broadcast rights, trade and barter, income taxes, commitments and contingencies. 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.

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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 on pages 53 through 56 in Part II, Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, of our Annual Report on Form 10-K for the fiscal year ended December 31, 2005. The information presented below updates, and should be read in conjunction with, the critical accounting policies and estimates discussed in our 2005 Annual Report on Form 10-K.

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### ***Stock Option Expense Recognition***

Effective January 1, 2006, we adopted Statement of Financial Accounting Standards No. 123 (revised 2004), *Share-Based Payment*, which requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair value. We recognize the expense related to our stock options over the period that the employee is required to provide services, and only to the extent the awards vest. Therefore, we apply an estimated forfeiture rate assumption to adjust compensation cost for the effect of those employees that are not expected to complete the requisite service period and will forfeit nonvested options. We base the forfeiture-rate assumption on Nexstar's historical experience of award forfeitures, and as necessary, adjusted for certain events that are not expected to recur during the expected term of the option.

We determine the fair value of employee stock options at the date of grant using the Black-Scholes option-pricing model. Our valuation of employee stock options rely on assumptions of factors we are required to input into the Black-Scholes model. These assumptions are highly subjective and involve an estimate of future uncertain events. The option pricing model requires us to input factors for expected stock price volatility and the expected term until exercise of the option award. Due to our limited history of publicly traded shares, we combine our historical stock price data and volatilities of peer companies in the television broadcasting industry when determining expected volatility. Based on a lack of historical option exercise experience and our current granting of stock options with plain vanilla characteristics, we use the simplified method provided in SEC Staff Accounting Bulletin No. 107 to estimate the expected term of our employee stock options.

### **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 our adoption of Statement of Financial Accounting Standards No. 123 (revised 2004), *Share-Based Payment* and other 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 and Section 21E of the Securities Exchange Act of 1934. 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, 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, 2005 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.

**Table of Contents****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.

All borrowings at June 30, 2006 under the senior credit facilities bear interest at 7.25%, which represented the base rate, or LIBOR, plus the applicable margin, as defined. Interest is payable in accordance with the credit agreements.

The following table estimates the changes to cash flow from operations as of June 30, 2006 if interest rates were to fluctuate by 100 or 50 basis points, or BPS (where 100 basis points represents one percentage point), for a twelve-month period:

|                          | Interest rate<br>decrease |           | No change to<br>interest rate<br>(in thousands) | Interest rate<br>increase |           |
|--------------------------|---------------------------|-----------|-------------------------------------------------|---------------------------|-----------|
|                          | 100 BPS                   | 50 BPS    |                                                 | 50 BPS                    | 100 BPS   |
| Senior credit facilities | \$ 21,118                 | \$ 22,807 | \$ 24,497                                       | \$ 26,186                 | \$ 27,876 |

There is no change to our cash flow from operations associated with our 7% senior subordinated notes due 2014 and our 11.375% senior discount notes due 2013 because these are fixed rate debt obligations. As of June 30, 2006, we have no financial instruments in place to hedge against changes in the benchmark interest rates on this fixed rate debt.

In the past, we have used derivative instruments to manage our exposures to interest rate risks. As of June 30, 2006, we had no derivative financial instruments. Our objective for holding derivatives is to minimize these risks using the most effective methods to eliminate or reduce the impacts of these exposures. We used interest rate swap arrangements, not designated as hedging instruments under SFAS No. 133, in connection with our variable rate senior credit facilities. We do not use derivative financial instruments for speculative or trading purposes.

***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***

Our management, with the participation of our President and Chief Executive Officer along with our 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.

Based upon that evaluation, our President and Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures (i) were effective in recording, processing, summarizing and reporting material information required to be included in our periodic filings under the Securities Exchange Act of 1934 within the time periods specified in the SEC's rules and forms; and (ii) include controls and other procedures designed to ensure that information required to be disclosed in our reports filed with the SEC was accumulated and communicated to management, including our President and Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

***Changes in Internal Control over Financial Reporting***

During the quarterly period as of the end of the period covered by this report, there have been no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, Nexstar's internal control over financial reporting.



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**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, 2005.

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

None.

**ITEM 3. Defaults Upon Senior Securities**

None.

**ITEM 4. Submission of Matters to a Vote of Security Holders**

Nexstar Broadcasting Group, Inc. held its 2006 Annual Meeting of Stockholders on May 30, 2006. Each of the following matters were approved by the stockholders by the following votes:

Proposal 1 The election of ten members to the Board of Directors to serve as directors until the next meeting of stockholders.

| <b>Nominees:</b>   | <b>For:</b> | <b>Withheld:</b> | <b>Abstain:</b> |
|--------------------|-------------|------------------|-----------------|
| Perry A. Sook      | 145,520,537 | 1,879,467        | 0               |
| Blake R. Battaglia | 145,522,037 | 1,877,967        | 0               |
| Erik Brooks        | 145,522,037 | 1,877,967        | 0               |
| Jay M. Grossman    | 145,287,222 | 2,112,782        | 0               |
| Brent Stone        | 145,522,046 | 1,877,958        | 0               |
| Royce Yudkoff      | 145,286,913 | 2,113,091        | 0               |
| Geoff Armstrong    | 147,399,604 | 400              | 0               |
| Michael Donovan    | 145,106,681 | 2,293,323        | 0               |
| I. Martin Pompadur | 145,116,468 | 2,283,536        | 0               |
| Lis McNabb         | 147,399,604 | 400              | 0               |

Proposal 2 The ratification of the selection of PricewaterhouseCoopers LLP as Nexstar Broadcasting Group, Inc.'s independent registered public accounting firm for the fiscal year ending December 31, 2006.

| <b>For:</b> | <b>Against:</b> | <b>Abstain:</b> |
|-------------|-----------------|-----------------|
| 147,395,769 | 4,034           | 200             |

Proposal 3 The approval of Nexstar Broadcasting Group, Inc.'s 2006 Long-Term Equity Incentive Plan.

| <b>For:</b> | <b>Against:</b> | <b>Abstain:</b> | <b>Broker</b> |
|-------------|-----------------|-----------------|---------------|
|-------------|-----------------|-----------------|---------------|

|             |           |       |                               |
|-------------|-----------|-------|-------------------------------|
| 141,217,358 | 1,513,228 | 2,000 | <b>Non-Vote:</b><br>4,667,418 |
|-------------|-----------|-------|-------------------------------|

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**ITEM 5. Other Information**

None.

**ITEM 6. Exhibits**

| <b>Exhibit No.</b> | <b>Exhibit Index</b>                                                                           |
|--------------------|------------------------------------------------------------------------------------------------|
| 31.1               | Certification of Perry A. Sook pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*     |
| 31.2               | Certification of Matthew E. Devine 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 Matthew E. Devine pursuant to 18 U.S.C. ss. 1350.*                            |

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\* Filed herewith

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**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/ MATTHEW E. DEVINE

**By: Matthew E. Devine**

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

Dated: August 8, 2006