

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark one)

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the quarterly period ended September 30, 2016 or

Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_ .

Commission file number 1-13796

**Gray Television, Inc.**

(Exact name of registrant as specified in its charter)

**Georgia**

(State or other jurisdiction of  
incorporation or organization)

**58-0285030**

(I.R.S. Employer  
Identification Number)

**4370 Peachtree Road, NE, Atlanta, Georgia**

(Address of principal executive offices)

**30319**

(Zip code)

**(404) 504-9828**

(Registrant's telephone number, including area code)

**Not Applicable**

(Former name, former address and former fiscal year, if changed since last report.)

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 periods that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer  (do not check if a smaller reporting company)

Smaller Reporting Company

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practical date.

**Common Stock (No Par Value)**

**66,285,797 shares outstanding as of October 31, 2016**

**Class A Common Stock (No Par Value)**

**6,404,862 shares outstanding as of October 31, 2016**

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**GRAY TELEVISION, INC.**

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**PART I. FINANCIAL INFORMATION**

**Item 1. Financial Statements**

**GRAY TELEVISION, INC.**  
**CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)**  
(in thousands)

|  | <u>September 30,</u><br><u>2016</u> | <u>December 31,</u><br><u>2015</u> |
|--|-------------------------------------|------------------------------------|
| <b>Assets:</b>   |                                     |                                    |
| Current assets:  |                                     |                                    |
| Cash   | \$ 230,398                          | 97,318                             |
| Accounts receivable, less allowance for doubtful accounts of \$2,963 and \$1,794, respectively | 149,864                             | 121,473                            |
| Current portion of program broadcast rights, net   | 18,309                              | 10,511                             |
| Deferred tax asset   | 49,191                              | 49,690                             |
| Prepaid and other current assets   | 19,828                              | 6,462                              |
| Total current assets   | <u>467,590</u>                      | <u>285,454</u>                     |
| Property and equipment, net  | 328,629                             | 234,475                            |
| Broadcast licenses   | 1,340,305                           | 1,114,626                          |
| Goodwill   | 485,605                             | 423,236                            |
| Other intangible assets, net   | 60,481                              | 53,280                             |
| Investments in broadcasting and technology companies   | 16,599                              | 13,599                             |
| Other  | 21,997                              | 3,038                              |
| Total assets   | <u>\$ 2,721,206</u>                 | <u>\$ 2,127,708</u>                |

See notes to condensed consolidated financial statements.

**GRAY TELEVISION, INC.**  
**CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)**  
(in thousands except for share data)

|  | September 30,<br>2016 | December 31,<br>2015 |
|--|-----------------------|----------------------|
| <b>Liabilities and stockholders' equity:</b>   |                       |                      |
| Current liabilities:   |                       |                      |
| Accounts payable   | \$ 5,467              | \$ 4,532             |
| Employee compensation and benefits   | 25,223                | 28,983               |
| Accrued interest   | 13,557                | 12,717               |
| Accrued network programming fees   | 12,295                | 11,945               |
| Other accrued expenses   | 9,270                 | 14,370               |
| Federal and state income taxes   | 1,490                 | 771                  |
| Current portion of program broadcast obligations   | 18,599                | 10,785               |
| Deferred revenue   | 11,730                | 3,514                |
| Total current liabilities  | <u>97,631</u>         | <u>87,617</u>        |
| Long-term debt, less current portion   | 1,755,725             | 1,220,084            |
| Program broadcast obligations, less current portion  | 5,172                 | 2,171                |
| Deferred income taxes  | 369,881               | 351,546              |
| Accrued pension costs  | 33,419                | 36,337               |
| Other  | 1,270                 | 679                  |
| Total liabilities  | <u>2,263,098</u>      | <u>1,698,434</u>     |
| Commitments and contingencies (Note 7)   |                       |                      |
| Stockholders' equity:  |                       |                      |
| Common stock, no par value; authorized 100,000,000 shares, issued 71,228,691 shares and 70,989,426 shares, respectively      | 657,470               | 655,446              |
| Class A common stock, no par value; authorized 15,000,000 shares, issued 8,073,993 shares and 7,855,381 shares, respectively | 21,149                | 19,325               |
| Accumulated deficit  | (137,199)             | (163,638)            |
| Accumulated other comprehensive loss, net of income tax benefit  | (17,284)              | (17,284)             |
|  | <u>524,136</u>        | <u>493,849</u>       |
| Treasury stock at cost, common stock, 4,943,223 shares and 4,882,705 shares, respectively                                    | (42,688)              | (41,890)             |
| Treasury stock at cost, Class A common stock, 1,669,131 shares and 1,611,371 shares, respectively                            | (23,340)              | (22,685)             |
| Total stockholders' equity   | <u>458,108</u>        | <u>429,274</u>       |
| Total liabilities and stockholders' equity   | <u>\$ 2,721,206</u>   | <u>\$ 2,127,708</u>  |

See notes to condensed consolidated financial statements.

**GRAY TELEVISION, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)**  
(in thousands except for per share data)

|  | Three Months Ended<br>September 30, |                 | Nine Months Ended<br>September 30, |                  |
|--|-------------------------------------|-----------------|------------------------------------|------------------|
|  | 2016                                | 2015            | 2016                               | 2015             |
| Revenue (less agency commissions)  | \$ 204,490                          | \$ 151,102      | \$ 574,846                         | \$ 427,869       |
| Operating expenses before depreciation, amortization and loss (gain) on disposal of assets, net: |                                     |                 |                                    |                  |
| Broadcast  | 120,717                             | 98,921          | 346,620                            | 272,213          |
| Corporate and administrative   | 7,223                               | 10,022          | 31,425                             | 23,313           |
| Depreciation   | 11,494                              | 9,354           | 34,237                             | 26,906           |
| Amortization of intangible assets  | 4,235                               | 3,213           | 12,365                             | 8,715            |
| Loss (gain) on disposal of assets, net   | 354                                 | 248             | (66)                               | 562              |
| Operating expenses   | 144,023                             | 121,758         | 424,581                            | 331,709          |
| Operating income   | 60,467                              | 29,344          | 150,265                            | 96,160           |
| Other income (expense):  |                                     |                 |                                    |                  |
| Miscellaneous income, net  | 30                                  | 28              | 740                                | 102              |
| Interest expense   | (27,926)                            | (18,645)        | (73,470)                           | (55,762)         |
| Loss from early extinguishment of debt   | (31,987)                            | -               | (31,987)                           | -                |
| Income before income taxes   | 584                                 | 10,727          | 45,548                             | 40,500           |
| Income tax expense   | 797                                 | 4,118           | 19,109                             | 16,186           |
| Net (loss) income  | <u>\$ (213)</u>                     | <u>\$ 6,609</u> | <u>\$ 26,439</u>                   | <u>\$ 24,314</u> |
| Basic per share information:   |                                     |                 |                                    |                  |
| Net (loss) income  | <u>\$ -</u>                         | <u>\$ 0.09</u>  | <u>\$ 0.37</u>                     | <u>\$ 0.36</u>   |
| Weighted-average shares outstanding  | <u>71,879</u>                       | <u>71,638</u>   | <u>71,850</u>                      | <u>67,215</u>    |
| Diluted per share information:   |                                     |                 |                                    |                  |
| Net (loss) income  | <u>\$ -</u>                         | <u>\$ 0.09</u>  | <u>\$ 0.36</u>                     | <u>\$ 0.36</u>   |
| Weighted-average shares outstanding  | <u>71,879</u>                       | <u>72,341</u>   | <u>72,723</u>                      | <u>67,824</u>    |
| Dividends declared per common share  | <u>\$ -</u>                         | <u>\$ -</u>     | <u>\$ -</u>                        | <u>\$ -</u>      |

See notes to condensed consolidated financial statements.

**GRAY TELEVISION, INC.**  
**CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (Unaudited)**  
(in thousands, except for number of shares)

|   | Class A<br>Common Stock |                  | Common Stock      |                   | Accumulated<br>Deficit | Class A<br>Treasury Stock |                   | Common<br>Treasury Stock |                   | Accumulated<br>Other<br>Comprehensive<br>Loss | Total             |
|---|-------------------------|------------------|-------------------|-------------------|------------------------|---------------------------|-------------------|--------------------------|-------------------|---|-------------------|
|   | Shares                  | Amount           | Shares            | Amount            |                        | Shares                    | Amount            | Shares                   | Amount            |   |                   |
| Balance at<br>December 31,<br>2015                              | 7,855,381               | \$ 19,325        | 70,989,426        | \$ 655,446        | \$ (163,638)           | (1,611,371)               | \$(22,685)        | (4,882,705)              | \$(41,890)        | \$ (17,284)                                   | \$ 429,274        |
| Net income  | -                       | -                | -                 | -                 | 26,439                 | -                         | -                 | -                        | -                 | -   | 26,439            |
| Adjustment to<br>pension<br>liability, net<br>of income tax     | -                       | -                | -                 | -                 | -                      | -                         | -                 | -                        | -                 | -   | -                 |
| Issuance of<br>common stock:                                    |                         |                  |                   |                   |                        |                           |                   |                          |                   |   |                   |
| 401(k) plan   | -                       | -                | 1,765             | 21                | -                      | -                         | -                 | -                        | -                 | -   | 21                |
| 2007 Long<br>Term<br>Incentive<br>Plan -<br>restricted<br>stock | 218,612                 |                  | 237,500           | -                 | -                      | (57,760)                  | (655)             | (60,518)                 | (798)             | -   | (1,453)           |
| Share-based<br>compensation                                     | -                       | 1,824            | -                 | 2,003             | -                      | -                         | -                 | -                        | -                 | -   | 3,827             |
| Balance at<br>September<br>30, 2016                             | <u>8,073,993</u>        | <u>\$ 21,149</u> | <u>71,228,691</u> | <u>\$ 657,470</u> | <u>\$ (137,199)</u>    | <u>(1,669,131)</u>        | <u>\$(23,340)</u> | <u>(4,943,223)</u>       | <u>\$(42,688)</u> | <u>\$ (17,284)</u>                            | <u>\$ 458,108</u> |

See notes to condensed consolidated financial statements.

**GRAY TELEVISION, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)**  
(in thousands)

|  | Nine Months Ended<br>September 30, |                  |
|--|------------------------------------|------------------|
|  | 2016                               | 2015             |
| <b>Operating activities</b>  |                                    |                  |
| Net income   | \$ 26,439                          | \$ 24,314        |
| Adjustments to reconcile net income to net cash provided by operating activities:  |                                    |                  |
| Depreciation   | 34,237                             | 26,906           |
| Amortization of intangible assets  | 12,365                             | 8,715            |
| Amortization of deferred loan costs  | 3,664                              | 2,396            |
| Amortization of original issue discount and premium related to long-term debt, net | (626)                              | (647)            |
| Amortization of restricted stock and stock option awards                           | 3,827                              | 3,011            |
| Amortization of program broadcast rights   | 14,026                             | 10,837           |
| Payments on program broadcast obligations  | (13,859)                           | (10,558)         |
| Common stock contributed to 401(k) plan  | 21                                 | 19               |
| Deferred income taxes  | 18,335                             | 16,040           |
| (Gain) loss on disposals of assets, net  | (66)                               | 562              |
| Loss from early extinguishment of debt   | 31,987                             | -                |
| Other  | 659                                | 48               |
| Changes in operating assets and liabilities:                                       |                                    |                  |
| Accounts receivable  | (8,677)                            | (4,120)          |
| Other current assets   | (12,234)                           | (1,841)          |
| Accounts payable   | 728                                | (233)            |
| Other current liabilities  | (10,419)                           | (481)            |
| Income taxes payable   | 719                                | -                |
| Accrued interest   | 841                                | 7,750            |
| Net cash provided by operating activities  | <u>101,967</u>                     | <u>82,718</u>    |
| <b>Investing activities</b>  |                                    |                  |
| Acquisitions of television businesses and broadcast licenses                       | (432,220)                          | (184,346)        |
| Proceeds from sale of television station   | 11,200                             | -                |
| Purchases of property and equipment  | (33,238)                           | (15,250)         |
| Proceeds from asset sales  | 1,925                              | 111              |
| Acquisition prepayment and other   | (17,171)                           | (150)            |
| Net cash used in investing activities  | <u>(469,504)</u>                   | <u>(199,635)</u> |
| <b>Financing activities</b>  |                                    |                  |
| Proceeds from borrowings on long-term debt   | 1,656,000                          | -                |
| Repayments of borrowings on long-term debt   | (1,100,000)                        | -                |
| Tender and redemption premiums for 2020 Notes                                      | (27,502)                           | -                |
| Proceeds from issuance of common stock   | -                                  | 167,313          |
| Deferred and other loan costs  | (27,881)                           | 4                |
| Net cash provided by financing activities  | <u>500,617</u>                     | <u>167,317</u>   |
| Net increase in cash   | 133,080                            | 50,400           |
| Cash at beginning of period  | 97,318                             | 30,769           |
| Cash at end of period  | <u>\$ 230,398</u>                  | <u>\$ 81,169</u> |

See notes to condensed consolidated financial statements.

**GRAY TELEVISION, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**

**1. Basis of Presentation**

The accompanying condensed consolidated balance sheet of Gray Television, Inc. (and its consolidated subsidiaries, except as the context otherwise provides, “Gray,” the “Company,” “we,” “us,” and “our”) as of December 31, 2015, which was derived from the Company’s audited financial statements as of December 31, 2015, and our accompanying unaudited condensed consolidated financial statements as of September 30, 2016 and for the periods ended September 30, 2016 and 2015 have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, certain information and note disclosures normally included in annual financial statements prepared in accordance with U.S. GAAP have been condensed or omitted pursuant to those rules and regulations, although we believe that the disclosures made are adequate to make the information not misleading. In our opinion, all adjustments (consisting only of normal recurring adjustments) considered necessary for a fair statement have been included. Our operations consist of one reportable segment. For further information, refer to the consolidated financial statements and footnotes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2015 (the “2015 Form 10-K”). Our financial condition as of, and operating results, for the nine-month period ended September 30, 2016 are not necessarily indicative of the financial condition or results that may be expected for any future interim period or for the year ending December 31, 2016.

*Seasonality and Cyclicity*

Broadcast advertising revenues are generally highest in the second and fourth quarters each year. This seasonality results partly from increases in consumer advertising in the spring and retail advertising in the period leading up to and including the holiday season. Broadcast advertising revenues are also typically higher in even-numbered years due to increased spending by political candidates, political parties and special interest groups in advance of elections. This political spending typically is heaviest during the fourth quarter.

*Use of Estimates*

The preparation of financial statements in conformity with U.S. GAAP requires our management to make estimates and assumptions that affect the amounts reported in the unaudited condensed consolidated financial statements and the notes to the unaudited condensed consolidated financial statements. Our actual results could differ materially from these estimates. The most significant estimates we make relate to our allowance for doubtful accounts in receivables, valuation of goodwill and intangible assets, amortization of program broadcast rights and intangible assets, share-based compensation, pension costs, income taxes, employee medical insurance claims, useful lives of property and equipment and contingencies.

*Earnings Per Share*

We compute basic earnings per share by dividing net income attributable to common stockholders by the weighted-average number of common shares outstanding during the relevant period. The weighted-average number of common shares outstanding does not include restricted shares. These shares, although classified as issued and outstanding, are considered contingently returnable until the restrictions lapse and, in accordance with U.S. GAAP, are not included in the basic earnings per share calculation until the shares vest. Diluted earnings per share is computed by including all potentially dilutive common shares, including restricted shares and shares underlying stock options, in the denominator of the diluted weighted-average shares outstanding calculation, unless their inclusion would be anti-dilutive. In the three-months ended September 30, 2016, we reported a net loss and therefore all common stock equivalents are excluded from the computation of diluted earnings per share for that period, since their inclusion would be anti-dilutive.



The following table reconciles basic weighted-average shares outstanding to diluted weighted-average shares outstanding for the three-month and nine-month periods ended September 30, 2016 and 2015 (in thousands):

|   | <b>Three Months Ended<br/>September 30,</b> |               | <b>Nine Months Ended<br/>September 30,</b> |               |
|---|---|---------------|--|---------------|
|   | <b>2016</b>                                 | <b>2015</b>   | <b>2016</b>                                | <b>2015</b>   |
| Weighted-average shares outstanding-basic                       | 71,879                                      | 71,638        | 71,850                                     | 67,215        |
| Common stock equivalents for stock options and restricted stock | -   | 703           | 873  | 609           |
| Weighted-average shares outstanding-diluted                     | <u>71,879</u>                               | <u>72,341</u> | <u>72,723</u>                              | <u>67,824</u> |

#### *Accumulated Other Comprehensive Loss*

Our accumulated other comprehensive loss balances as of September 30, 2016 and December 31, 2015 consist of adjustments to our pension liability and the related income tax benefit. Our comprehensive (loss) income for the three and nine-month periods ended September 30, 2016 and 2015 consisted entirely of net (loss) income. Therefore the consolidated statement of comprehensive (loss) income is not presented for the three and nine-month periods ended September 30, 2016 or 2015.

#### *Property and Equipment*

Property and equipment are carried at cost. Depreciation is computed principally by the straight-line method. Maintenance, repairs and minor replacements are charged to operations as incurred; major replacements and betterments are capitalized. The cost of any assets sold or retired and the related accumulated depreciation are removed from the accounts at the time of disposition, and any resulting profit or loss is reflected in income or expense for the period. In the nine-months ended September 30, 2016, our total property and equipment balance, before accumulated depreciation, increased approximately \$102.7 million as a result of property and equipment acquired in connection with recent acquisitions of television stations, and decreased approximately \$3.7 million as a result of the disposition of one television station. In the nine-months ended September 30, 2015, our total property and equipment balance, before accumulated depreciation, increased approximately \$16.0 million as a result of property and equipment acquired in connection with acquisitions of television stations. The remaining changes in the balances in the nine-months ended September 30, 2016 and 2015 were due to routine property and equipment purchases and retirements. The following table lists the components of property and equipment by major category (dollars in thousands):

|                                   | <b>September 30,<br/>2016</b> | <b>December 31,<br/>2015</b> | <b>Estimated<br/>Useful Lives<br/>(in years)</b> |
|-----------------------------------|-------------------------------|------------------------------|--|
| Property and equipment:           |                               |                              |  |
| Land                              | \$ 45,306                     | \$ 36,529                    |  |
| Buildings and improvements        | 135,208                       | 85,626                       | 7 to 40  |
| Equipment                         | 468,692                       | 420,380                      | 3 to 20  |
|                                   | <u>649,206</u>                | <u>542,535</u>               |  |
| Accumulated depreciation          | (320,577)                     | (308,060)                    |  |
| Total property and equipment, net | <u>\$ 328,629</u>             | <u>\$ 234,475</u>            |  |

#### *Allowance for Doubtful Accounts*

Our allowance for doubtful accounts is equal to at least 85% of our receivable balances that are 120 days old or older. We may provide allowances for certain receivable balances that are less than 120 days old when warranted by specific facts and circumstances. We generally write-off accounts receivable balances when the customer files for bankruptcy or when all commonly used methods of collection have been exhausted.

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-09, Revenue from Contracts with Customers (Topic 606). ASU 2014-09 provides new guidance on revenue recognition for revenue from contracts with customers and will replace most existing revenue recognition guidance when it becomes effective. This guidance requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The standard is intended to improve comparability of revenue recognition practices across entities and provide more useful information through improved financial statement disclosures. In August 2015, the FASB issued ASU 2015-14, Revenue from Contracts with Customers (Topic 606): *Deferral of the Effective Date*. ASU 2015-14 deferred the effective date of ASU 2014-09 by one year to interim and annual reporting periods beginning after December 15, 2017, and permitted early adoption of the standard, but not before the original effective date of December 15, 2016. The standard permits the use of either the retrospective or cumulative effect transition method. In April 2016, the FASB issued ASU 2016-10, Revenue from Contracts with Customers (Topic 606): *Identifying Performance Obligations and Licensing*. This ASU amends the guidance of ASU 2014-09 to clarify the identification of performance obligations and to provide additional licensing implementation guidance. In May 2016, the FASB issued ASU 2016-12, Revenue from Contracts with Customers (Topic 606): *Narrow Scope Improvements and Practical Expedients*. This ASU was issued to provide guidance in assessing collectibility, presentation of sales taxes, noncash consideration, and completed contracts and contract modifications at transition, in order to reduce the potential for diversity in practice at initial application, and to reduce the cost and complexity of applying the standard. We are currently evaluating the expected impact of the requirements of these ASUs on our financial statements.

In November 2015, the FASB issued ASU No. 2015-17, Income Taxes (Topic 740) – *Balance Sheet Classification of Deferred Taxes*. ASU 2015-17 requires a “noncurrent” presentation of all deferred income taxes. Entities with publicly traded securities are required to apply the new guidance beginning in the annual reporting period beginning after December 15, 2016, and interim periods thereafter. We expect that the affected amounts on our balance sheets will be reclassified within our balance sheets to conform to this standard.

In January 2016, the FASB issued ASU No. 2016-01, Financial Instruments - Overall (Subtopic 825-10) - *Recognition and Measurement of Financial Assets and Financial Liabilities*. ASU 2016-01 amends the guidance in U.S. GAAP regarding the classification and measurement of financial instruments. The new standard significantly revises an entity’s accounting related to the classification and measurement of investments in equity securities and the presentation of certain fair value changes for financial liabilities measured at fair value. The standard is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. We do not expect that the adoption of this ASU will have a material impact on our financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). ASU 2016-02 will supersede Topic 840, *Leases*, and thus will supersede nearly all existing lease guidance by requiring the reclassification of lease assets and lease liabilities on the balance sheet and requiring disclosure of key information about leasing arrangements. The standard will be effective for fiscal years beginning after December 15, 2018. We are currently evaluating the expected impact that this ASU will have on our financial condition, results of operations and cash flows.

In March 2016, the FASB issued ASU 2016-09, Compensation - Stock Compensation (Topic 718) - *Improvements to Employee Share-Based Payment Accounting*. ASU 2016-09 amends the guidance in U.S. GAAP with the intent of simplifying several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards, and classification on the statement of cash flows. The standard is effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. We do not expect that the adoption of this ASU will have a material impact on our financial statements.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230) – *Classification of Certain Cash Receipts and Cash Payments*. ASU 2016-15 amends the guidance of U.S. GAAP with the intent of addressing eight specific cash flow issues with the objective of reducing the existing diversity in practice. One or more of these eight issues are applicable to our financial statements. The standard is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. We do not expect that the adoption of this ASU will have a material impact on our financial statements.

## Reclassifications

In April 2015, the FASB issued ASU No. 2015-03, Interest - Imputation of Interest (Subtopic 835-30) - *Simplifying the Presentation of Debt Issuance Costs*. ASU 2015-03 amended previous guidance to require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs were not affected by the amendments in this ASU. In August 2015, the FASB issued ASU No. 2015-15, Interest - Imputation of Interest (Subtopic 835-30) - *Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements- Amendments to SEC Paragraphs Pursuant to Staff Announcement at June 18, 2015 EITF Meeting*. ASU 2015-15 amended previous guidance to codify the June 18, 2015 Staff Announcement that the SEC staff would not object to the deferral and presentation as an asset, and subsequent amortization of such asset, of deferred debt issuance costs related to line of credit arrangements. We adopted these standards as of January 1, 2016. In accordance with these standards, we have reclassified our deferred loan costs as a reduction in the balance of our long-term debt in our balance sheets as of September 30, 2016 and December 31, 2015. Our deferred loan costs were previously presented as a non-current asset. In addition, certain other current and non-current liabilities have been reclassified to conform to the current year presentation.

## 2. Acquisitions and Dispositions

As previously disclosed, on February 16, 2016, we completed the acquisition of the television and radio broadcast assets of Schurz Communications, Inc. ("Schurz") for an adjusted purchase price of \$443.4 million plus transaction related expenses (the "Schurz Acquisition").

Also as previously disclosed, to facilitate regulatory approval for the Schurz Acquisition, on February 1, 2016, we exchanged the assets of KAKE-TV (ABC) (and its satellite stations) in the Wichita, Kansas television market, for the assets of Lockwood Broadcasting, Inc.'s television station WBXX-TV (CW) in the Knoxville, Tennessee television market and \$11.2 million of cash (the "WBXX Acquisition"). In connection with the divestiture of KAKE-TV's assets, we recorded a gain of approximately \$2.0 million, excluding transaction related expenses.

To further facilitate regulatory approvals for the Schurz Acquisition, on February 16, 2016, we also exchanged the assets of WSBT-TV for the assets of Sinclair Broadcast Group, Inc.'s television station WLUC-TV (NBC/FOX) in the Marquette, Michigan television market (the "WLUC Acquisition"), and we sold the Schurz radio broadcast assets (the "Schurz Radio Stations") for \$16.0 million to three third-party radio broadcasters. We did not record a gain or loss related to the WLUC Acquisition or related to the divestiture of the Schurz Radio Stations.

The Schurz Acquisition, the WBXX Acquisition, the WLUC Acquisition, and the sale of the Schurz Radio Stations are referred to collectively as the "Schurz Acquisition and Related Transactions." We used borrowings of \$425.0 million (the "2016 Term Loan") under our senior credit facility, as amended (the "Senior Credit Facility") to fund a portion of the purchase price to complete the Schurz Acquisition and to pay a portion of the related fees and expenses, the remainder of which were paid from cash on hand. See Note 3 "Long-term Debt" for further information regarding our financing activities.

The net consideration to complete the Schurz Acquisition and Related Transactions was as follows (in thousands):

|  | <b>Divestiture<br/>of KAKE-TV</b> | <b>Acquisition<br/>of WBXX-TV</b> | <b>Schurz<br/>Acquisition<br/>and the<br/>Acquisition<br/>of WLUC-TV</b> | <b>Total</b>      |
|--|-----------------------------------|-----------------------------------|--|-------------------|
| Base purchase price  | \$ -                              | \$ 30,000                         | \$ 442,500   | \$ 472,500        |
| Purchase price adjustment  | -                                 | -                                 | 948  | 948               |
| Adjusted purchase price  | -                                 | 30,000                            | 443,448  | 473,448           |
| Cash consideration received from sale of Schurz Radio Stations                   | -                                 | -                                 | (16,000)   | (16,000)          |
| Net adjusted purchase price allocated to assets acquired and liabilities assumed | -                                 | 30,000                            | 427,448  | 457,448           |
| Non-cash consideration received  | (30,000)                          | -                                 | -  | (30,000)          |
| Cash consideration received  | (11,200)                          | -                                 | -  | (11,200)          |
| Net consideration - the Schurz Acquisition and Related Transactions              | <u>\$ (41,200)</u>                | <u>\$ 30,000</u>                  | <u>\$ 427,448</u>  | <u>\$ 416,248</u> |

On June 27, 2016, we completed the acquisition of KYES-TV (MY, Ant.), a television station serving the Anchorage, Alaska television market, from Fireweed Communications, LLC (the “KYES-TV Acquisition”). The purchase price of \$0.5 million, plus transaction related expenses, was paid with cash on hand.

Collectively, we refer to the stations acquired and retained in 2016, as well as those which we began operating under a local programming and marketing agreement (an “LMA”) in 2016, as the “2016 Acquisitions.”

*Preliminary Fair Value Estimates*

The preliminary fair value estimates of the assets acquired, liabilities assumed and resulting goodwill of our 2016 Acquisitions are summarized as follows (in thousands):

|                             | <u>Acquisition<br/>of KYES-TV</u> | <u>Acquisition<br/>of WBXX-TV</u> | <u>Schurz<br/>Acquisition<br/>and the<br/>Acquisition<br/>of WLUC-TV</u> | <u>Total</u>      |
|-----------------------------|-----------------------------------|-----------------------------------|--|-------------------|
| Accounts receivable         | \$ -                              | \$ -                              | \$ 19,313  | \$ 19,313         |
| Other current assets        | -                                 | 429                               | 4,606  | 5,035             |
| Property and equipment      | 176                               | 1,633                             | 97,814   | 99,623            |
| Goodwill                    | 28                                | 10,288                            | 62,268   | 72,584            |
| Broadcast licenses          | 254                               | 18,199                            | 231,391  | 249,844           |
| Other intangible assets     | 42                                | -                                 | 19,523   | 19,565            |
| Other non-current assets    | -                                 | 408                               | 3,028  | 3,436             |
| Current liabilities         | -                                 | (460)                             | (8,903)  | (9,363)           |
| Other long-term liabilities | -                                 | (497)                             | (1,592)  | (2,089)           |
| <b>Total</b>                | <u>\$ 500</u>                     | <u>\$ 30,000</u>                  | <u>\$ 427,448</u>  | <u>\$ 457,948</u> |

Amounts in the table above are based upon management’s preliminary estimate of the fair values using valuation techniques including income, cost and market approaches. In estimating the fair value of the acquired assets and assumed liabilities, the fair value estimates are based on, but not limited to, expected future revenue and cash flows, expected future growth rates, and estimated discount rates.

Accounts receivable are recorded at their fair value representing the amount we expect to collect. Gross contractual amounts receivable are approximately \$0.2 million more than their recorded fair value.

Property and equipment are recorded at their fair value and are being depreciated over their estimated useful lives ranging from three years to 40 years.

Amounts related to other intangible assets represent primarily the estimated fair values of retransmission agreements of \$14.9 million; advertising client relationships of \$1.6 million; and favorable income leases of \$2.6 million. These intangible assets are being amortized over their estimated useful lives of approximately 4.9 years for retransmission agreements; approximately 5.5 years for advertising client relationships; and approximately 9.5 years for favorable income leases.

Goodwill is calculated as the excess of the consideration transferred over the fair value of the identifiable net assets acquired and liabilities assumed, and represents the future economic benefits expected to arise from other intangible assets acquired that do not qualify for separate recognition, including assembled workforce, as well as future synergies that we expect to generate from each acquisition. We have preliminarily recorded \$72.6 million of goodwill related to 2016 Acquisitions. The goodwill recognized related to these acquisitions is deductible for income tax purposes.

The Company’s consolidated results of operations for the three and nine-months ended September 30, 2016 include the results of the 2016 Acquisitions from the date of each transaction. Revenues attributable thereto and included in our condensed consolidated statements of operations for the three and nine-months ended September 30, 2016 were \$37.1 million and \$87.9 million, respectively. Operating income attributable thereto and included in our condensed consolidated statements of operations for the three and nine-months ended September 30, 2016 were \$16.2 million and \$35.3 million, respectively. In connection with the 2016 Acquisitions, we incurred a total of \$0.5 million and \$7.7 million of transaction related costs during the three and nine-months ended September 30, 2016, respectively, primarily related to legal, consulting and other professional services.

*Unaudited Pro Forma Financial Information*

The following table sets forth certain unaudited pro forma information for the nine-months ended September 30, 2016 and 2015 assuming that the Schurz Acquisition and Related Transactions occurred on January 1, 2015 (in thousands, except per share data):

|                                   | <b>Nine Months Ended<br/>September 30,</b> |             |
|-----------------------------------|--|-------------|
|                                   | <b>2016</b>                                | <b>2015</b> |
| Revenue (less agency commissions) | \$ 588,193                                 | \$ 505,269  |
| Net income                        | \$ 22,025                                  | \$ 24,182   |
| Basic net income per share        | \$ 0.31                                    | \$ 0.36     |
| Diluted net income per share      | \$ 0.30                                    | \$ 0.36     |

This pro forma financial information is based on historical results of operations of each of Gray, the television stations acquired and the television and radio broadcast assets divested in the Schurz Acquisition and Related Transactions, adjusted for the effect of fair value estimates and other acquisition accounting adjustments, and is not necessarily indicative of what our results would have been had we completed each of the Schurz Acquisition and Related Transactions on January 1, 2015 or on any other historical date, nor is it reflective of our expected results of operations for any future period. The pro forma adjustments for the nine-months ended September 30, 2016 and 2015 reflect depreciation expense and amortization of finite-lived intangible assets related to the fair value of the assets acquired, interest expense resulting from additional borrowings under our Senior Credit Facility and the related tax effects of the adjustments. This pro forma financial information has been prepared based on estimates and assumptions that we believe are reasonable as of the date hereof, and are subject to change based on, among other things, changes in the preliminary allocation of purchase price to the fair value of the assets acquired and liabilities assumed, or any other underlying assumptions.

Pro forma information for the KYES-TV Acquisition is not included, as such information is not material to our financial statements.

*Pending Acquisitions*

On May 13, 2016, we announced that we agreed to acquire television stations WDTV-TV (CBS) and WVFX-TV (FOX, CW), a legal duopoly in the Clarksburg-Weston, West Virginia television market (the "Clarksburg Acquisition") from Withers Broadcasting Company of West Virginia and Withers Broadcasting Company of Clarksburg, LLC (collectively "Withers") for a maximum total purchase price of \$26.5 million in cash. On June 1, 2016, we made a partial payment of \$16.5 million to Withers and acquired the non-license assets of these stations. Also, on that date we began to provide services to Withers under an LMA. The completion of our acquisition of the stations' licenses and license-related assets is subject to the receipt of regulatory and other approvals. We currently expect to complete this acquisition in late 2016 or early 2017.

On June 3, 2016, we announced that we agreed with Nextstar Broadcasting Group, Inc. ("Nexstar"), to acquire two television stations that Nexstar will divest upon its merger with Media General, Inc. ("Media General"): WBAY-TV (ABC), in the Green Bay, Wisconsin television market, and KWQC-TV (NBC), in the Davenport, Iowa television market, both currently owned and operated by Media General, for \$270.0 million in cash. We expect to fund these acquisitions primarily with cash on hand and, if necessary, available borrowings under our Senior Credit Facility or other available financing, depending on the cost and availability thereof. We anticipate closing the acquisition in late 2016 or early 2017.

On November 7, 2016, we entered into agreements with Tanana Valley Television Company and Tanana Valley Holdings, LLC, to acquire KTUV (NBC), KXD (CBS), and KFXF (FOX) in the Fairbanks, Alaska television market, for a total purchase price of \$8.0 million (the “Fairbanks Acquisition”). We anticipate completing the Fairbanks Acquisition using cash on hand following receipt of regulatory approvals in the first or second quarter of 2017.

### 3. Long-term Debt

As of September 30, 2016 and December 31, 2015, as applicable, long-term debt consisted of obligations under our Senior Credit Facility, our 7½% senior notes due 2020 (the “2020 Notes”), our 5.875% senior notes due 2026 (the “2026 Notes”) and our 5.125% senior notes due 2024 (the “2024 Notes”), as follows (in thousands):

|  | September 30,<br>2016 | December 31,<br>2015 |
|--|-----------------------|----------------------|
| Long-term debt including current portion:                  |                       |                      |
| Senior Credit Facility                                     | \$ 556,438            | \$ 556,438           |
| 2020 Notes   | -                     | 675,000              |
| 2024 Notes   | 525,000               | -                    |
| 2026 Notes   | 700,000               | -                    |
| Total outstanding principal                                | 1,781,438             | 1,231,438            |
| Unamortized deferred loan costs - Senior Credit Facility   | (12,857)              | (6,136)              |
| Unamortized deferred loan costs - 2020 Notes               | -                     | (9,317)              |
| Unamortized deferred loan costs - 2024 Notes               | (7,971)               | -                    |
| Unamortized deferred loan costs - 2026 Notes               | (10,834)              | -                    |
| Unamortized premium - 2020 Notes                           | -                     | 4,099                |
| Unamortized premium - 2026 Notes                           | 5,949                 | -                    |
| Net carrying value   | <u>\$ 1,755,725</u>   | <u>\$ 1,220,084</u>  |
| Borrowing availability under the Revolving Credit Facility | \$ 60,000             | \$ 50,000            |

Our Senior Credit Facility consists of a revolving loan (the “Revolving Credit Facility”) and a term loan. Excluding accrued interest, the amount outstanding under our Senior Credit Facility as of September 30, 2016 and December 31, 2015 consisted solely of a term loan balance of \$556.4 million. Our maximum borrowing availability under our Revolving Credit Facility is limited by our required compliance with certain restrictive covenants, including a first lien net leverage ratio covenant. As of September 30, 2016 and December 31, 2015, the interest rate on the balance outstanding under the Senior Credit Facility was 3.9% and 3.8%, respectively.

In connection with the consummation of the Schurz Acquisition and Related Transactions, effective February 16, 2016, we entered into the Second Amendment and Incremental Facility Agreement to our Senior Credit Facility (the “Second Amendment”). Pursuant to this Second Amendment, we borrowed \$425.0 million under the 2016 Term Loan to fund a portion of the purchase price of the Schurz Acquisition. The Second Amendment also increased our availability under the Revolving Credit Facility by \$10.0 million to a total of \$60.0 million.

On June 14, 2016, we completed the private placement of \$500.0 million of our 2026 Notes (the “Original 2026 Notes”), at par. We used a portion of the proceeds of the Original 2026 Notes to repay the outstanding balance of the 2016 Term Loan, accrued interest thereon, and transaction related fees and expenses. On September 14, 2016, we completed the private placement of an additional \$200.0 million of our 2026 Notes (the “Additional 2026 Notes”). The Additional 2026 Notes were issued at a price of 103.0%, resulting in aggregate gross proceeds of approximately \$206.0 million, plus accrued and unpaid interest from and including June 14, 2016. The Additional 2026 Notes are an additional issuance of, rank equally with and form a single series with the Original 2026 Notes. The 2026 Notes mature on July 15, 2026. Interest is payable semiannually, on January 15 and July 15 of each year commencing on January 15, 2017.

Also on September 14, 2016, we completed the private placement of \$525.0 million of our 2024 Notes, at par. The 2024 Notes mature on October 15, 2024. Interest is payable semiannually, on April 15 and October 15 of each year commencing on April 15, 2017.

We used a portion of the proceeds from the sale of the 2026 Additional Notes and the 2024 Notes to complete the Tender Offer (discussed below). We used the remaining proceeds and cash on hand to redeem the 2020 Notes that remained outstanding after the completion of the Tender Offer.

As of September 30, 2016, we had \$700.0 million of 2026 Notes outstanding and \$525.0 million of 2024 Notes outstanding. The interest rate and yield on the Original 2026 Notes were each 5.875%. The interest rate and yield on the Additional 2026 Notes were 5.875% and 5.398%, respectively. The interest rate and yield on the 2024 Notes were each 5.125%.

In September 2016, we purchased approximately \$431.2 million in aggregate principal amount of the 2020 Notes validly tendered in connection with a previously announced cash tender offer (the "Tender Offer"). The Tender Offer expired on September 13, 2016.

On September 14, 2016, we satisfied and discharged our obligations under the indenture governing the remaining 2020 Notes outstanding by depositing with the trustee thereunder the redemption price of 103.750% of the principal amount thereunder, plus accrued and unpaid interest to, but not including, the date of redemption (the "Redemption").

In connection with the completion of the Tender Offer and the Redemption, we recorded a loss from early extinguishment of debt of approximately \$32.0 million (\$19.5 million net of tax) in the three and nine-months ended September 30, 2016 consisting of Tender Offer premiums of \$18.2 million, call premiums of \$9.1 million, the write off of unamortized deferred financing costs of \$8.0 million and the payment of approximately \$0.2 million in legal and other professional fees; but reduced by the recognition of un-accreted net premium of \$3.5 million.

#### *Collateral, Covenants and Restrictions*

Our obligations under the Senior Credit Facility are secured by substantially all of our consolidated subsidiaries' assets, including certain real estate. In addition, all of our subsidiaries are joint and several guarantors of, and our ownership interests in those subsidiaries are pledged to collateralize, our obligations under the Senior Credit Facility. Gray Television, Inc. is a holding company with no material independent assets or operations. For all applicable periods, the 2026 Notes and 2024 Notes have been fully and unconditionally guaranteed, on a joint and several, senior unsecured basis, by all of Gray Television, Inc.'s subsidiaries. As of September 30, 2016, there were no significant restrictions on the ability of Gray Television, Inc.'s subsidiaries to distribute cash to Gray or to the guarantor subsidiaries.

The Senior Credit Facility contains affirmative and restrictive covenants with which we must comply, including: (a) limitations on additional indebtedness; (b) limitations on liens; (c) limitations on the sale of assets; (d) limitations on guarantees; (e) limitations on investments and acquisitions; (f) limitations on the payment of dividends and share repurchases; (g) limitations on mergers; and (h) maintenance of a total leverage ratio not to exceed certain maximum limits while any amount is outstanding under the Revolving Credit Facility, as well as other customary covenants for credit facilities of this type. The 2026 Notes and 2024 Notes include covenants with which we must comply which are typical for borrowing transactions of their nature. As of September 30, 2016 and December 31, 2015, we were in compliance with all required covenants under all our debt obligations.

We may redeem some or all of the 2026 Notes at any time after July 15, 2021 at specified redemption prices. We may also redeem up to 35% of the aggregate principal amount of the 2026 Notes using the proceeds from certain equity offerings completed before July 15, 2019. In addition, we may redeem some or all of the 2026 Notes at any time prior to July 15, 2021 at a price equal to 100% of the principal amount thereof plus a make whole premium, and accrued but unpaid interest. If we sell certain of our assets or experience specific kinds of changes of control, we must offer to repurchase the 2026 Notes.

We may redeem some or all of the 2024 Notes at any time after October 15, 2019 at specified redemption prices. We may also redeem up to 35% of the aggregate principal amount of the 2024 Notes using the proceeds from certain equity offerings completed before October 15, 2019. In addition, we may redeem some or all of the 2024 Notes at any time prior to October 15, 2019 at a price equal to 100% of the principal amount thereof plus a make whole premium, and accrued and unpaid interest. If we sell certain of our assets or experience specific kinds of changes of control, we must offer to repurchase the 2024 Notes.

#### 4. Fair Value Measurement

For purposes of determining a fair value measurement, we utilize market data or assumptions that market participants would use in pricing an asset or liability, including assumptions about risk and the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated or generally unobservable. We utilize valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. These inputs are prioritized into a hierarchy that gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (“Level 1”) and the lowest priority to unobservable inputs that require assumptions to measure fair value (“Level 3”). Level 2 inputs are those that are other than quoted prices on national exchanges included within Level 1 that are observable for the asset or liability either directly or indirectly (“Level 2”).

##### *Fair Value of Other Financial Instruments*

The estimated fair value of other financial instruments is determined using market information and appropriate valuation methodologies. Interpreting market data to develop fair value estimates involves considerable judgment. The use of different market assumptions may have a material effect on the estimated fair value amounts. Accordingly, the estimates presented are not necessarily indicative of the amounts that we could realize in a current market exchange, or the value that ultimately will be realized upon maturity or disposition.

The carrying amounts of the following instruments approximate fair value due to their short term to maturity: (i) accounts receivable; (ii) prepaid and other current assets; (iii) accounts payable; (iv) accrued employee compensation and benefits; (v) accrued interest; (vi) other accrued expenses; (vii) acquisition-related liabilities; and (viii) deferred revenue.

The carrying amount of our long-term debt was \$1.8 billion and \$1.2 billion, respectively, and the fair value was \$1.8 billion and \$1.2 billion, respectively, as of September 30, 2016 and December 31, 2015. Fair value of our long-term debt is based on observable estimates provided by third-party financial professionals as of September 30, 2016 and December 31, 2015 and as such is classified within Level 2 of the fair value hierarchy.

#### 5. Retirement Plans

The following table provides the components of net periodic benefit cost for our pension plans for the three-month and nine-month periods ended September 30, 2016 and 2015, respectively (in thousands):

|                                | Three Months Ended<br>September 30, |      | Nine Months Ended<br>September 30, |          |
|--------------------------------|-------------------------------------|------|------------------------------------|----------|
|                                | 2016                                | 2015 | 2016                               | 2015     |
| Service cost                   | \$ -                                | \$ - | \$ -                               | \$ 3,116 |
| Interest cost                  | 1,185                               | -    | 3,554                              | 4,448    |
| Expected return on plan assets | (1,298)                             | -    | (3,892)                            | (5,114)  |
| Loss amortization              | 153                                 | -    | 458                                | 1,740    |
| Net periodic benefit cost      | \$ 40                               | \$ - | \$ 120                             | \$ 4,190 |

During the nine-month period ended September 30, 2016, we contributed \$3.0 million to our defined benefit pension plans. During the remainder of 2016, we do not expect to make further contributions to these plans.

During the three and nine-month periods ended September 30, 2016, we contributed \$1.5 million and \$4.1 million, respectively, in matching contributions to our defined contribution plan, the Gray Television, Inc. Capital Accumulation Plan. During the remainder of 2016, we estimate that our contributions will be approximately \$1.4 million to this plan, excluding discretionary profit-sharing contributions.



## 6. Share-based Compensation

We recognize compensation expense for share-based payment awards made to our employees and directors, including stock options and restricted shares awarded under our 2007 Long-Term Incentive Plan, as amended (the "2007 Incentive Plan") and our Directors' Restricted Stock Plan. Currently, there are no outstanding share awards under our Directors' Restricted Stock Plan. The following table provides information on our share-based compensation expense and related income tax benefit for the three and nine-month periods ended September 30, 2016 and 2015, respectively (in thousands).

|   | Three Months Ended<br>September 30, |               | Nine Months Ended<br>September 30, |                 |
|---|-------------------------------------|---------------|------------------------------------|-----------------|
|   | 2016                                | 2015          | 2016                               | 2015            |
| Stock-based compensation expense, gross   | \$ 1,271                            | \$ 1,009      | \$ 3,827                           | \$ 3,011        |
| Income tax benefit at our statutory rate associated with share-based compensation | (496)                               | (394)         | (1,493)                            | (1,174)         |
| Stock-based compensation expense, net   | <u>\$ 775</u>                       | <u>\$ 615</u> | <u>\$ 2,334</u>                    | <u>\$ 1,837</u> |

The 2007 Long-Term Incentive Plan provides for the grant of incentive stock options, nonqualified stock options, restricted stock awards, stock appreciation rights, and performance awards to acquire shares of our Class A common stock or common stock, or other awards based on our performance, to our employees and non-employee directors.

During the nine-month period ended September 30, 2016, we granted 218,452 shares of restricted common stock to certain employees, of which 72,816 shares will vest on each of January 31, 2017 and 2018; and 72,820 shares will vest on January 31, 2019. Also during the nine-month period ended September 30, 2016, we granted 166,677 shares of restricted Class A common stock to one employee, of which 55,559 shares will vest on each of January 31, 2017, 2018 and 2019. During the nine-month period ended September 30, 2016, we also granted 19,048 shares of restricted common stock to certain non-employee directors, which shares will vest on January 31, 2017. Also during the nine-month period ended September 30, 2016, we granted 51,935 shares of restricted Class A common stock to certain non-employee directors, which shares will vest on January 31, 2017. During the nine-month period ended September 30, 2015, we granted 150,308 shares of restricted common stock to certain employees, of which 50,102 shares vested on January 31, 2016; 50,100 shares will vest on January 31, 2017; and 50,106 shares will vest on January 31, 2018. Also during the nine-month period ended September 30, 2015, we granted 229,322 shares of restricted Class A common stock to certain employees, of which 76,442 shares vested January 31, 2016; 76,442 shares will vest on January 31, 2017; and 76,438 shares will vest on January 31, 2018. Also during the nine-month period ended September 30, 2015, we granted 58,191 shares of restricted Class A common stock to certain non-employee directors, all of which vested on January 31, 2016.

A summary of restricted common stock activity for the nine-month periods ended September 30, 2016 and 2015 is as follows:

|                                   | Nine Months Ended   |   |                     |   |
|-----------------------------------|---------------------|---|---------------------|---|
|                                   | September 30, 2016  |   | September 30, 2015  |   |
|                                   | Number of<br>Shares | Weighted-<br>average<br>Grant Date<br>Fair Value<br>Per Share | Number of<br>Shares | Weighted-<br>average<br>Grant Date<br>Fair Value<br>Per Share |
| Restricted stock - common:        |                     |   |                     |   |
| Outstanding - beginning of period | 337,506             | \$ 9.57   | 385,056             | \$ 9.09   |
| Granted                           | 237,500             | \$ 12.88  | 150,308             | \$ 10.27  |
| Vested                            | (178,973)           | \$ 8.46   | (197,858)           | \$ 9.16   |
| Outstanding - end of period       | <u>396,033</u>      | <u>\$ 12.06</u>   | <u>337,506</u>      | <u>\$ 9.57</u>  |

A summary of restricted Class A common stock activity for the nine-month periods ended September 30, 2016 and 2015 is as follows:

|                                    | Nine Months Ended  |  |                    |  |
|------------------------------------|--------------------|--|--------------------|--|
|                                    | September 30, 2016 |  | September 30, 2015 |  |
|                                    | Number of Shares   | Weighted-average Grant Date Fair Value Per Share | Number of Shares   | Weighted-average Grant Date Fair Value Per Share |
| Restricted stock - class A common: |                    |  |                    |  |
| Outstanding - beginning of period  | 374,693            | \$ 9.46  | 204,473            | \$ 9.81  |
| Granted                            | 218,612            | \$ 11.25   | 287,513            | \$ 9.37  |
| Vested                             | (178,223)          | \$ 10.04   | (117,293)          | \$ 9.85  |
| Outstanding - end of period        | <u>415,082</u>     | <u>\$ 10.15</u>                                  | <u>374,693</u>     | <u>\$ 9.46</u>                                   |

#### Stock Options

As of September 30, 2016 and 2015, options to purchase 274,746 shares of our common stock, with an exercise price of \$1.99, were outstanding and exercisable. For each of the nine-month periods ended September 30, 2016 and 2015, we did not have any outstanding stock options for our Class A common stock. The aggregate intrinsic value of our outstanding stock options was \$2.3 million based on the closing market price of our common stock on September 30, 2016.

#### 7. Commitments and Contingencies

From time to time, we are or may become subject to legal proceedings and claims that arise in the normal course of our business. In our opinion, the amount of ultimate liability, if any, with respect to known actions, will not materially affect our financial position. However, the outcome of any one or more matters cannot be predicted with certainty, and the unfavorable resolution of any matter could have a material adverse effect on us.

#### 8. Goodwill and Intangible Assets

During the nine-month period ended September 30, 2016, we acquired and disposed of various television broadcast stations and broadcast licenses. See Note 2 "Acquisitions and Dispositions" for more information regarding these transactions. As a result of these transactions, our goodwill and other intangible asset balances changed. A summary of changes in our goodwill and other intangible assets, on a net basis, for the nine-month period ended September 30, 2016 is as follows (in thousands):

|   | Net Balance at December 31, 2015 | Acquisitions And Adjustments | Dispositions       | Impairments | Amortization       | Net Balance at September 30, 2016 |
|---|----------------------------------|------------------------------|--------------------|-------------|--------------------|-----------------------------------|
| Goodwill  | \$ 423,236                       | \$ 72,584                    | \$ (10,215)        | \$ -        | \$ -               | \$ 485,605                        |
| Broadcast licenses                                      | 1,114,626                        | 251,035                      | (25,356)           | -           | -                  | 1,340,305                         |
| Definite lived intangible assets                        | 53,280                           | 19,566                       | -                  | -           | (12,365)           | 60,481                            |
| Total intangible assets net of accumulated amortization | <u>\$ 1,591,142</u>              | <u>\$ 343,185</u>            | <u>\$ (35,571)</u> | <u>\$ -</u> | <u>\$ (12,365)</u> | <u>\$ 1,886,391</u>               |

As of September 30, 2016 and December 31, 2015, our intangible assets and related accumulated amortization consisted of the following (in thousands):

|   | As of September 30, 2016 |                          |                     | As of December 31, 2015 |                          |                     |
|---|--------------------------|--------------------------|---------------------|-------------------------|--------------------------|---------------------|
|   | Gross                    | Accumulated Amortization | Net                 | Gross                   | Accumulated Amortization | Net                 |
| <b>Intangible assets not currently subject to amortization:</b> |                          |                          |                     |                         |                          |                     |
| Broadcast licenses  | \$ 1,394,004             | \$ (53,699)              | \$ 1,340,305        | \$ 1,168,325            | \$ (53,699)              | \$ 1,114,626        |
| Goodwill  | 485,605                  | -                        | 485,605             | 423,236                 | -                        | 423,236             |
|   | <u>\$ 1,879,609</u>      | <u>\$ (53,699)</u>       | <u>\$ 1,825,910</u> | <u>\$ 1,591,561</u>     | <u>\$ (53,699)</u>       | <u>\$ 1,537,862</u> |
| <b>Intangible assets subject to amortization:</b>               |                          |                          |                     |                         |                          |                     |
| Network affiliation agreements                                  | \$ 1,264                 | \$ (1,264)               | \$ -                | \$ 1,264                | \$ (1,264)               | \$ -                |
| Other definite lived intangible assets                          | 105,791                  | (45,310)                 | 60,481              | 86,696                  | (33,416)                 | 53,280              |
|   | <u>\$ 107,055</u>        | <u>\$ (46,574)</u>       | <u>\$ 60,481</u>    | <u>\$ 87,960</u>        | <u>\$ (34,680)</u>       | <u>\$ 53,280</u>    |
| <b>Total intangibles</b>  | <u>\$ 1,986,664</u>      | <u>\$ (100,273)</u>      | <u>\$ 1,886,391</u> | <u>\$ 1,679,521</u>     | <u>\$ (88,379)</u>       | <u>\$ 1,591,142</u> |

Amortization expense for the nine-month periods ended September 30, 2016 and 2015 was \$12.4 million and \$8.7 million, respectively. Based on the current amount of intangible assets subject to amortization, we expect that amortization expense for the succeeding five years will be as follows: 2017, \$16.3 million; 2018, \$11.5 million; 2019, \$9.0 million; 2020, \$6.1 million; and 2021, \$3.2 million. If and when acquisitions and dispositions occur in the future, actual amounts may vary from these estimates.

#### *Impairment of goodwill and broadcast licenses*

Our intangible assets are primarily comprised of broadcast licenses. There were no triggering events that required a test of our goodwill or intangible assets for impairment during the nine-month periods ended September 30, 2016 or 2015.

## 9. Income Taxes

For the three and nine-month periods ended September 30, 2016 and 2015, our income tax expense and effective income tax rates were as follows (dollars in thousands):

|                           | Three Months Ended<br>September 30, |          | Nine Months Ended<br>September 30, |           |
|---------------------------|-------------------------------------|----------|------------------------------------|-----------|
|                           | 2016                                | 2015     | 2016                               | 2015      |
| Income tax expense        | \$ 797                              | \$ 4,118 | \$ 19,109                          | \$ 16,186 |
| Effective income tax rate | 136.5%                              | 38.4%    | 42.0%                              | 40.0%     |

We estimate our differences between taxable income or loss and recorded income or loss on an annual basis. Our tax provision for each quarter is based upon these full-year projections, which are revised each reporting period. These projections incorporate estimates of permanent differences between U.S. GAAP income or loss and taxable income or loss, state income taxes and adjustments to our liability for unrecognized tax benefits to adjust our statutory Federal income tax rate of 35.0% to our effective income tax rate. For the nine-month period ended September 30, 2016, these estimates increased or decreased our statutory Federal income tax rate of 35.0% to our effective income tax rate of 42.0% as follows: state income taxes added 4.6%, permanent differences between our U.S. GAAP income and taxable income added 2.1%, and a discrete share-based compensation adjustment added 1.0%, while adjustments to our reserve for uncertain tax positions resulted in a reduction of 0.7%. For the nine-month period ended September 30, 2015, these estimates increased or decreased our statutory Federal income tax rate of 35.0% to our effective income tax rate of 40.0% as follows: state income taxes added 4.5% and permanent differences between our U.S. GAAP income and taxable income added 1.6%, and discrete items resulted in a reduction of 0.2%, while adjustments to our reserve for uncertain tax positions resulted in a reduction of 0.9%.

For the three-months ended September 30, 2016, our effective income tax rate was significantly higher than our statutory Federal income tax rate of 35.0% due primarily to the permanent differences between our taxable income and our U.S. GAAP income. These permanent differences represented a high percentage of our pre-tax U.S. GAAP income.

## 10. Subsequent Event

On November 6, 2016, the Board of Directors of the Company authorized the Company to purchase up to an additional \$75.0 million of outstanding common stock prior to December 31, 2019. The extent to which the Company repurchases common stock, the number of shares and the timing of any repurchases will depend on general market conditions, regulatory requirements, alternative investment opportunities and other considerations. The Company is not required to repurchase a minimum number of shares, and the repurchase authorization may be modified, suspended or terminated at any time without prior notice. This authorization prohibits the Company from purchasing shares directly from the Company's officers, directors, or the Gray Television, Inc. Capital Accumulation Plan (401K plan).

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

### Executive Overview

#### Introduction

The following analysis of the financial condition and results of operations of Gray Television, Inc. and its consolidated subsidiaries (except as the context otherwise provides, "Gray," the "Company," "we," "us" or "our") should be read in conjunction with our unaudited condensed consolidated financial statements and related notes contained in this report and our audited consolidated financial statements and related notes contained in our Annual Report on Form 10-K for the fiscal year ended December 31, 2015 (the "2015 Form 10-K").

We are a television broadcast company headquartered in Atlanta, Georgia, that owns and/or operates television stations and leading digital assets in markets throughout the United States. As of September 30, 2016, we owned and/or operated television stations in 51 television markets broadcasting over 190 programming streams, including 36 affiliates of the CBS Network ("CBS"), 27 affiliates of the NBC Network ("NBC"), 19 affiliates of the ABC Network ("ABC") and 14 affiliates of the FOX Network ("FOX"). The following discussion and analysis includes revenue and expenses attributable to all of our owned stations and those that we operate under an LMA.

In addition to a primary broadcast channel, each of our stations can also broadcast additional, secondary digital channels within the same broadcast bandwidth, but with different programming from the primary channel. In addition to affiliations with ABC, CBS, FOX and NBC, our secondary channels are affiliated with numerous smaller networks and program services including, among others, the CW Network or the CW Plus Network (collectively, "CW"), MY Network ("MY" or "My Network"), the MeTV Network ("MeTV"), This TV Network ("This TV"), Antenna TV ("Ant."), Telemundo ("Tel."), Cozi, Heroes and Icons ("H&I"), MOVIES! Network ("Movies"). Certain of our secondary digital channels are affiliated with more than one network simultaneously. We also broadcast local news/weather channels in some markets ("News"). Our combined TV station group currently reaches approximately 9.5% of total United States television households.

#### Recent Acquisitions and Divestitures

On February 16, 2016, we completed the acquisition of the television and radio broadcast assets of Schurz Communications, Inc. ("Schurz") for an adjusted purchase price of \$443.4 million plus transaction related expenses (the "Schurz Acquisition"). To facilitate the regulatory approval of the Schurz Acquisition, we (i) exchanged the assets of KAKE-TV (ABC) (and its satellite stations) for the assets of Lockwood Broadcasting, Inc.'s television station WBXX-TV (CW) and \$11.2 million of cash, on February 1, 2016; (ii) exchanged the assets of WSBT-TV for the assets of Sinclair Broadcast Group, Inc.'s television station WLUC-TV (NBC/FOX) on February 16, 2016; and (iii) sold the Schurz radio broadcast assets to three radio broadcasters on February 16, 2016 (collectively with the Schurz Acquisition, the "Schurz Acquisition and Related Transactions").

On June 27, 2016, we completed the acquisition of KYES-TV (MY, Ant.), in the Anchorage Alaska television market, from Fireweed Communications, LLC (the "KYES-TV Acquisition") for a purchase price of \$0.5 million, plus transaction related expenses.

Collectively, we refer to the stations acquired and retained in 2016, as well as those which we began operating under a local programming and marketing agreement (an "LMA") in 2016, as the "2016 Acquisitions." For a more detailed discussion of the 2016 Acquisitions, including the consideration paid to complete such transactions and their impact on our operations since the respective acquisition dates, see Note 2, "Acquisitions and Dispositions."

During 2015, we completed six acquisitions which collectively added a total of seven television stations in six markets (four new markets) to our operations at various times during that year, and we refer to the stations acquired in those acquisitions as the "2015 Acquisitions."

#### 2016 Financings

In connection with the consummation of the Schurz Acquisition and Related Transactions, effective February 16, 2016, we entered into the Second Amendment and Incremental Facility Agreement to our Senior Credit Facility (the "Second Amendment"). Pursuant to this Second Amendment, we borrowed \$425.0 million under the 2016 Term Loan to fund a portion of the purchase price of the Schurz Acquisition. The Second Amendment also increased our availability under the Revolving Credit Facility by \$10.0 million to a total of \$60.0 million.

On June 14, 2016, we completed the private placement of \$500.0 million of our 2026 Notes (the “Original 2026 Notes”), at par. We used a portion of the proceeds of the 2026 Notes to repay the outstanding balance of the 2016 Term Loan, accrued interest thereon, and transaction related fees and expenses. On September 14, 2016, we completed the private placement of an additional \$200.0 million of our 2026 Notes (the “Additional 2026 Notes”). The Additional 2026 Notes were issued at a price of 103.0%, resulting in aggregate gross proceeds of approximately \$206.0 million, plus accrued and unpaid interest from and including June 14, 2016. The Additional 2026 Notes are an additional issuance of, rank equally with and form a single series with the Original 2026 Notes. The 2026 Notes mature on July 15, 2026. Interest is payable semiannually, on January 15 and July 15 of each year commencing on January 15, 2017.

Also on September 14, 2016, we completed the private placement of \$525.0 million of our 2024 Notes, at par. The 2024 Notes mature on October 15, 2024. Interest is payable semiannually, on April 15 and October 15 of each year commencing on April 15, 2017.

We used a portion of the proceeds from the sale of the 2026 Additional Notes and the 2024 Notes to complete the Tender Offer (discussed below). We used the remaining proceeds and cash on hand to redeem the 2020 Notes that remained outstanding after the completion of the Tender Offer.

On September 14, 2016, we purchased approximately \$431.2 million in aggregate principal amount of our 7½% Senior Notes due 2020 (the “2020 Notes”) validly tendered in connection with a cash tender offer (the “Tender Offer”) for any and all of our outstanding \$675.0 million aggregate principal amount of 2020 Notes.

On September 14, 2016, we satisfied and discharged our obligations under the indenture governing the remaining 2020 Notes outstanding by depositing with the trustee thereunder the redemption price of 103.750% of the principal amount thereunder, plus accrued and unpaid interest to, but not including, the date of redemption (the “Redemption”).

See Note 3 “Long-term Debt” for further information regarding our financing activities.

### *Television Industry Background*

The Federal Communications Commission (the “FCC”) grants broadcast licenses to television stations. There are only a limited number of broadcast licenses available in any geographic area.

Television station revenue is derived primarily from local and national advertising and retransmission consent fees. Television station revenue is derived to a much lesser extent from studio and tower space rental; and commercial production activities. “Advertising” refers primarily to advertisements broadcast by television stations, but it also includes advertisements placed on a television station’s website and sponsorships of television programming and off-line content (such as email messages, mobile applications, and other electronic content distributed by stations). Advertising rates are based upon: (i) the size of a station’s market, (ii) a station’s overall ratings, (iii) a program’s popularity among targeted viewers, (iv) the number of advertisers competing for available time, (v) the demographic makeup of the station’s market, (vi) the availability of alternative advertising media in the market, (vii) the presence of effective sales forces and (viii) the development of projects, features and programs that tie advertiser messages to programming. Rates can also be determined, in-part, by a station’s overall ratings and in-market share, as well as the station’s ratings and market share among particular demographic groups that an advertiser may be targeting. Advertisers’ budgets, which can be affected by broad economic trends, can affect the broadcast industry in general and the revenue of individual broadcast television stations.

### *Cyclicality and Seasonality*

Because broadcast stations like ours rely on advertising revenue, they are sensitive to cyclical changes in the economy. As a result, our non-political advertising revenue has improved along with the general economic environment since 2010. Our political advertising revenue is generally not as significantly affected by economic slowdowns or recessions as our non-political advertising revenue.

Broadcast advertising revenue is generally highest in the second and fourth quarters each year. This seasonality results partly from increases in consumer advertising in the spring and retail advertising in the period leading up to and including the Christmas holiday season. Broadcast advertising revenue is also typically higher in even-numbered years due to spending by political candidates, political parties and special interest groups during the “on year” of the two-year political advertising cycle. This political advertising spending typically is heaviest during the fourth quarter. In addition, the broadcast of Olympic Games by our NBC-affiliated stations during even-numbered years generally leads to increased viewership and revenue during those years.

For the nine-month period ended September 30, 2016, excluding political advertising revenue, our largest advertising customer category was automotive. For each of the nine-month periods ended September 30, 2016 and 2015, we earned approximately 23% and 24%, respectively, of our total broadcast advertising revenue, excluding political advertising revenue, from automotive customers. Our business and operating results could be materially adversely affected if advertising revenue from automotive customers were to decrease significantly. Our business and operating results could also be materially adversely affected if revenue decreased from one or more other significant advertising categories, such as the medical, restaurant, furniture and appliances or home improvement industries.

#### Reclassification of Revenue

Through 2015, we reported our local television advertising revenues and our internet advertising revenues (internet/digital/mobile) separately. Beginning in 2016, we report a single line item identified as “Local (including internet/digital/mobile)” that combines both our local television advertising revenues and our internet/digital/mobile advertising revenues. Because this revenue originates within each local market in which we operate and is sold by the same local sales force, we believe this classification is more consistent and more representative of our operating focus, to maximize all aspects of local revenue. All prior periods presented herein have been reclassified to reflect our current presentation.

Please see our “Results of Operations” and “Liquidity and Capital Resources” sections below for further discussion of our operating results.

#### Revenue

Set forth below are the principal types of revenue, less agency commissions, earned by us for the periods indicated and the percentage contribution of each type of revenue to our total revenue (dollars in thousands):

|   | Three Months Ended September 30, |                  |                   |                  | Nine Months Ended September 30, |                  |                   |                  |
|---|----------------------------------|------------------|-------------------|------------------|---------------------------------|------------------|-------------------|------------------|
|   | 2016                             |                  | 2015              |                  | 2016                            |                  | 2015              |                  |
|   | Amount                           | Percent of Total | Amount            | Percent of Total | Amount                          | Percent of Total | Amount            | Percent of Total |
| <b>Revenue:</b>                           |                                  |                  |                   |                  |                                 |                  |                   |                  |
| Local (including internet/digital/mobile) | \$ 102,172                       | 50.0%            | \$ 83,972         | 55.6%            | \$ 296,253                      | 51.5%            | \$ 241,928        | 56.5%            |
| National                                  | 25,426                           | 12.4%            | 20,889            | 13.8%            | 73,575                          | 12.8%            | 57,605            | 13.5%            |
| Political                                 | 22,272                           | 10.9%            | 4,594             | 3.0%             | 41,576                          | 7.2%             | 7,950             | 1.9%             |
| Retransmission consent                    | 51,096                           | 25.0%            | 39,329            | 26.0%            | 148,914                         | 25.9%            | 112,489           | 26.3%            |
| Other                                     | 3,524                            | 1.7%             | 2,318             | 1.6%             | 14,528                          | 2.6%             | 7,897             | 1.8%             |
| Total                                     | <u>\$ 204,490</u>                | <u>100.0%</u>    | <u>\$ 151,102</u> | <u>100.0%</u>    | <u>\$ 574,846</u>               | <u>100.0%</u>    | <u>\$ 427,869</u> | <u>100.0%</u>    |

#### Results of Operations

##### Three-Months Ended September 30, 2016 (“2016 three-month period”) Compared to Three-Months Ended September 30, 2015 (“2015 three-month period”)

*Revenue.* Total revenue increased \$53.4 million, or 35%, to \$204.5 million in the 2016 three-month period compared to the 2015 three-month period. Our revenue increased primarily due to the 2016 Acquisitions, 2015 Acquisitions and increased political advertising revenue. The 2016 Acquisitions and 2015 Acquisitions, collectively, accounted for approximately \$50.8 million of total revenue in the 2016 three-month period, and \$8.3 million of total revenue in the 2015 three-month period. Local advertising revenue increased \$18.2 million, or 22%, to \$102.2 million in the 2016 three-month period compared to the 2015 three-month period. National advertising revenue increased \$4.5 million, or 22%, to \$25.4 million in the 2016 three-month period compared to the 2015 three-month period. Local and national advertising revenue included approximately \$8.2 million of advertising revenue related to our broadcasts of the 2016 Olympic games in the 2016 three-month period. Political advertising revenue increased \$17.7 million, or 385%, to \$22.3 million in the 2016 three-month period compared to the 2015 three-month period, due to 2016 being the “on year” of the two-year election cycle which results in increased spending by political candidates, political parties and special interest groups. Retransmission consent revenue increased \$11.8 million, or 30%, to \$51.1 million in the 2016 three-month period compared to the 2015 three-month period, due primarily to increased retransmission consent rates.

Excluding revenue attributable to the 2016 Acquisitions and the 2015 Acquisitions and political advertisers, our five largest advertising categories on a combined local and national basis by customer type demonstrated the following changes during the 2016 three-month period compared to the 2015 three-month period automotive increased 1%; medical increased 5%; furniture and appliances increased 6%; restaurant decreased 17%; and home improvement increased 11%.

*Broadcast expenses.* Broadcast expenses (before depreciation, amortization and loss on disposal of assets) increased \$21.8 million, or 22%, to \$120.7 million in the 2016 three-month period. The 2016 Acquisitions and the 2015 Acquisitions, collectively, accounted for approximately \$28.1 million of total broadcast expense in the 2016 three-month period and \$4.6 million of total broadcast expenses in the 2015 three-month period. Overall the increased costs reflected increases in non-compensation expense of \$9.9 million and increases in compensation expense of \$11.9 million. In addition to the effect from our acquisitions, non-compensation expense increased primarily due to increases in network affiliation fees, programming costs, software license fees, consulting fees and utilities offset, in-part, by decreased national sales commissions as a result of the termination of substantially all of our national sales representation agreements at the beginning of 2016. Compensation expense increased due to increases in salaries, incentive compensation and healthcare costs related to our 2016 Acquisitions and 2015 Acquisitions. During the 2016 three-month period and the 2015 three-month period, we recorded broadcast non-cash, share-based compensation expense of \$0.3 million and \$0.2 million, respectively.

*Corporate and administrative expenses.* Corporate and administrative expenses (before depreciation, amortization and loss on disposal of assets) decreased \$2.8 million, or 28%, to \$7.2 million in the 2016 three-month period compared to the 2015 three-month period, primarily due to decreases in non-compensation expenses of \$3.3 million, partially offset by increases of \$0.5 million in compensation expenses. Non-compensation expense decreased primarily due to decreased professional fees related to the 2016 Acquisitions, that were completed primarily in the first quarter of 2016, compared to the 2015 Acquisitions, that were completed primarily in the third quarter of 2015. Compensation expenses increased primarily due to increases in incentive compensation offset, in part, by reductions in relocation expense. During the 2016 three-month period and the 2015 three-month period, we recorded corporate non-cash, share-based compensation expense of \$1.0 million and \$0.8 million, respectively.

*Depreciation.* Depreciation of property and equipment increased \$2.1 million, or 23%, to \$11.5 million during the 2016 three-month period compared to the 2015 three-month period. Depreciation increased due to additional property and equipment being placed in service as a result of the 2016 Acquisitions.

*Amortization of intangible assets.* Amortization of intangible assets increased approximately \$1.0 million to \$4.2 million during the 2016 three-month period compared to the 2015 three-month period. Amortization expense increased due to the addition of definite lived intangible assets related to the 2016 Acquisitions.

*Interest expense.* Interest expense increased \$9.3 million or 50% to \$27.9 million in the 2016 three-month period primarily as a result of the increase in debt outstanding compared to the 2015 three-month period. Average interest rates decreased to 5.6% in the 2016 three-month period compared to 5.8% in the 2015 three-month period, and our average outstanding debt balance was \$1.7 billion and \$1.2 billion, respectively.

*Loss from early extinguishment of debt.* In connection with the completion of the Tender Offer and the Redemption, we recorded a loss from early extinguishment of debt of approximately \$32.0 million (\$19.5 million net of tax) in the 2016 three-month period, consisting of Tender Offer premiums of \$18.2 million, premiums related to the redemption of \$9.1 million, the write off of unamortized deferred financing costs of \$8.0 million and the payment of approximately \$0.2 million in legal and other professional fees; but reduced by the recognition of un-accreted net premium of \$3.5 million.

*Income tax expense.* We recognized income tax expense of \$0.8 million and \$4.1 million for the 2016 and 2015 three-month periods, respectively. For the 2016 and 2015 three-month periods, our effective income tax rate was 136.5% and 38.4%, respectively. We estimate our differences between taxable income or loss and recorded income or loss on an annual basis. Our tax provision for each quarter is based upon these full-year projections that are revised each reporting period. These projections incorporate estimates of permanent differences between U.S. GAAP income or loss and taxable income or loss, state income taxes and adjustments to our liability for unrecognized tax benefits. For the 2016 three-month period, these estimates increased or decreased our statutory Federal income tax rate of 35.0% to our effective income tax rate as follows: state income taxes added 18.2%, permanent differences between our U.S. GAAP income and taxable income added 73.0%, adjustments to our reserve for uncertain tax positions resulted in a reduction of 23.0% and discrete items increased the effective rate by 33.3%.

***Nine-Months Ended September 30, 2016 (“2016 nine-month period”) Compared to Nine-Months Ended September 30, 2015 (“2015 nine-month period”)***

*Revenue.* Total revenue increased \$147.0 million, or 34%, to \$574.8 million in the 2016 nine-month period as compared to the 2015 nine-month period. Our total revenue increased primarily due to revenue from the 2016 Acquisitions, the 2015 Acquisitions and increased political advertising revenue. The 2016 Acquisitions and 2015 Acquisitions collectively accounted for approximately \$128.3 million of the total revenue in the 2016 nine-month period and \$8.3 million of the total revenue in the 2015 nine-month period. Local advertising revenue increased \$54.3 million, or 22%, to \$296.3 million in the 2016 nine-month period compared to the 2015 nine-month period. National advertising revenue increased \$16.0 million, or 28%, to \$73.6 million in the 2016 nine-month period compared to the 2015 nine-month period. Local and national advertising revenue included approximately \$2.1 million of revenue from the broadcast of the 2016 Super Bowl on our CBS channels, an increase of approximately \$0.6 million compared to the \$1.5 million of revenue from the broadcast of the 2015 Super Bowl on our NBC channels. Local and national advertising revenue also included approximately \$8.2 million of advertising revenue related to our broadcasts of the 2016 Olympic games in the 2016 nine-month period. Political advertising revenue increased \$33.6 million, or 423%, to \$41.6 million in the 2016 nine-month period, due to 2016 being the “on year” of the two-year election cycle. Retransmission consent revenue increased \$36.4 million, or 32%, to \$148.9 million due primarily to increased retransmission consent rates.

Excluding revenue attributable to the 2016 Acquisitions and the 2015 Acquisitions and political advertisers, our five largest advertising categories on a combined local and national basis by customer type demonstrated the following changes during the 2016 nine-month period compared to the 2015 nine-month period: automotive increased 2%; medical increased 2%; restaurant decreased 7%; furniture and appliances increased 5%; and home improvement increased 7%.

*Broadcast expenses.* Broadcast expenses (before depreciation, amortization and loss (gain) on disposal of assets) increased \$74.4 million, or 27%, to \$346.6 million in the 2016 nine-month period. The 2016 Acquisitions and the 2015 Acquisitions, collectively, accounted for approximately \$74.5 million of the total broadcast expense from the 2016 nine-month period and \$4.6 million of the total broadcast expense in the 2015 nine-month period. Overall, the increase in broadcast operating expenses reflected increases in non-compensation expenses of \$36.2 million and increases in compensation expenses of \$38.2 million. In addition to the effect of acquisitions, non-compensation expense increased primarily due to increases in network affiliation fees offset, in-part, by decreased national sales commissions as a result of the termination of substantially all of our national sales representation agreements at the beginning of 2016. In addition to the effect of acquisitions, compensation expense increased due to increases in incentive compensation. During the 2016 and the 2015 nine-month periods, we recorded broadcast non-cash, share-based compensation expense of \$0.9 million and \$0.7 million, respectively.

*Corporate and administrative expenses.* Corporate and administrative expenses (before depreciation, amortization and loss on disposal of assets) increased \$8.1 million, or 35%, to \$31.4 million for the 2016 nine-month period due primarily to non-compensation expense that increased \$6.8 million in the nine-months ended September 30, 2016 due to \$13.2 million of professional fees, primarily related to the 2016 Acquisitions compared to \$7.0 million of professional fees incurred in the nine-months ended September 30, 2015, primarily related to the acquisition of the 2015 Acquisitions. Compensation expense increased by \$1.3 million primarily due to increases in incentive compensation, partially offset by a decrease in relocation expenses. We recorded non-cash share-based compensation expense during the 2016 and 2015 nine-month periods of \$2.9 million and \$2.3 million, respectively.

*Depreciation.* Depreciation of property and equipment increased \$7.3 million, or 27%, to \$34.2 million for the 2016 nine-month period as compared to the 2015 nine-month period. Depreciation increased due to additional property and equipment being placed in service due to routine asset purchases and the 2016 Acquisitions and the 2015 Acquisitions.



*Amortization of intangible assets.* Amortization of intangible assets increased \$3.7 million to \$12.4 million during the 2016 nine-month period compared to the 2015 nine-month period due to amortization of the additional definite lived intangible assets of the 2016 Acquisitions and 2015 Acquisitions.

*Interest expense.* Interest expense increased \$17.7 million, or 32%, to \$73.5 million for the 2016 nine-month period compared to the 2015 nine-month period. This increase was attributable to an increase in average borrowings outstanding. Our average debt balance was \$1.6 billion and \$1.2 billion during the 2016 and 2015 nine-month periods, respectively. The average interest rates on our total debt balances were 5.6% and 5.8% during the 2016 and 2015 nine-month periods, respectively. Our average debt balance increased as a result of increased borrowings used to finance, in part, the 2016 Acquisitions.

*Loss from early extinguishment of debt.* In connection with the completion of the Tender Offer and the Redemption, we recorded a loss from early extinguishment of debt of approximately \$32.0 million (\$19.5 million net of tax) in the 2016 nine-month period, consisting of Tender Offer premiums of \$18.2 million, premiums related to the redemption of \$9.1 million, the write off of unamortized deferred financing costs of \$8.0 million and the payment of approximately \$0.2 million in legal and other professional fees; reduced by the recognition of un-accreted net premium of \$3.5 million.

*Income tax expense.* We recognized income tax expense of \$19.1 million and \$16.2 million in the 2016 and 2015 nine-month periods, respectively. For the 2016 and 2015 nine-month periods, our effective income tax rate was 42.0% and 40.0%, respectively. The primary reason for the increase in our income tax expense was the increase in our pre-tax income in the 2016 nine-month period compared to the 2015 nine-month period. We estimate our differences between taxable income or loss and recorded income or loss on an annual basis. Our tax provision for each quarter is based upon these full-year projections that are revised each reporting period. These projections incorporate estimates of permanent differences between U.S. GAAP income or loss and taxable income or loss, state income taxes and adjustments to our liability for unrecognized tax benefits. For the 2016 nine-month period, these estimates increased or decreased our statutory Federal income tax rate of 35.0% to our effective income tax rate as follows: state income taxes added 4.6%, permanent differences between our U.S. GAAP income and taxable income added 2.1%, adjustments to our reserve for uncertain tax positions resulted in a reduction of 0.7% and discrete items increased the effective rate by 1%.

## Liquidity and Capital Resources

### General

The following table presents data that we believe is helpful in evaluating our liquidity and capital resources (in thousands).

|   | <b>Nine Months Ended September 30,</b> |                  |
|---|--|------------------|
|   | <b>2016</b>                            | <b>2015</b>      |
| Net cash provided by operating activities | \$ 101,967                             | \$ 82,718        |
| Net cash used in investing activities     | (469,504)                              | (199,635)        |
| Net cash provided by financing activities | 500,617                                | 167,317          |
| Increase in cash                          | <u>\$ 133,080</u>                      | <u>\$ 50,400</u> |

  

|  | <b>As of</b>         |                          |
|--|----------------------|--------------------------|
|  | <b>September 30,</b> | <b>December 31, 2015</b> |
|  | <b>2016</b>          | <b>December 31, 2015</b> |
| Cash   | \$ 230,398           | \$ 97,318                |
| Long-term debt   | \$ 1,755,725         | \$ 1,220,084             |
| Borrowing availability under the Revolving Credit Facility | \$ 60,000            | \$ 50,000                |

Our Senior Credit Facility consists of a revolving loan (the “Revolving Credit Facility”) and a term loan. Excluding accrued interest, the amount outstanding under our Senior Credit Facility as of September 30, 2016 and December 31, 2015 consisted solely of a term loan balance of \$556.4 million. Our maximum borrowing availability under our Revolving Credit Facility is limited by our required compliance with certain restrictive covenants, including a first lien net leverage ratio covenant. As of September 30, 2016 and December 31, 2015, the interest rate on the balance outstanding under the Senior Credit Facility was 3.9% and 3.8%, respectively.

Pursuant to the Second Amendment, in the first quarter of 2016 we borrowed \$425.0 million under the 2016 Term Loan to fund a portion of the purchase price of the Schurz Acquisition. The Second Amendment also increased our availability under the Revolving Credit Facility by \$10.0 million to a total of \$60.0 million.

For a discussion of certain financing activities in the nine-month period ended September 30, 2016, see “2016 Financings,” above.

We used a portion of the proceeds from the sale of the 2026 Additional Notes and the 2024 Notes to complete the Tender Offer. We used the remaining proceeds and cash on hand to redeem the 2020 Notes that remained outstanding after the completion of the Tender Offer.

As of September 30, 2016, we had \$700.0 million of 2026 Notes outstanding and \$525.0 million of 2024 Notes outstanding. The interest rate and yield on the Original 2026 Notes were each 5.875%. The interest rate and yield on the Additional 2026 Notes were 5.875% and 5.398%, respectively. The interest rate and yield on the 2024 Notes were each 5.125%.

Our obligations under the Senior Credit Facility are secured by substantially all of our consolidated subsidiaries' assets, including certain real estate. In addition, all of our subsidiaries are joint and several guarantors of, and our ownership interests in those subsidiaries are pledged to collateralize, our obligations under the Senior Credit Facility. Gray Television, Inc. is a holding company with no material independent assets or operations. For all periods presented, the 2026 Notes and 2024 Notes have been fully and unconditionally guaranteed, on a joint and several, senior unsecured basis, by all of Gray Television, Inc.'s subsidiaries. As of September 30, 2016, there were no significant restrictions on the ability of Gray Television, Inc.'s subsidiaries to distribute cash to Gray or to the guarantor subsidiaries.

The Senior Credit Facility contains affirmative and restrictive covenants with which we must comply, including (a) limitations on additional indebtedness, (b) limitations on liens, (c) limitations on the sale of assets, (d) limitations on guarantees, (e) limitations on investments and acquisitions, (f) limitations on the payment of dividends and share repurchases, (g) limitations on mergers, and (h) maintenance of a total leverage ratio not to exceed certain maximum limits while any amount is outstanding under the Revolving Credit Facility, as well as other customary covenants for credit facilities of this type. The 2026 Notes and 2024 Notes include covenants with which we must comply which are typical for borrowing transactions of their nature. As of September 30, 2016 and December 31, 2015, we were in compliance with all required covenants under all our debt obligations.

#### *Net Cash Provided By (Used In) Operating, Investing and Financing Activities*

Net cash provided by operating activities was \$101.9 million in the 2016 nine-month period compared to \$82.7 million in the 2015 nine-month period. The increase of \$19.2 million in the 2016 period was the result of a \$2.1 million increase in net income and a \$47.3 million increase in non-cash expenses, partially offset by a \$30.2 million use of cash by working capital accounts. These changes were primarily due to the impact on our operations of changes in the components of our debt financing and changes in our tax position, as well as the impact of the 2016 Acquisitions and the 2015 Acquisitions.

Net cash used in investing activities was \$469.5 million in the 2016 nine-month period compared to net cash used in investing activities of \$199.6 million for the 2015 nine-month period. The increase in cash used in investing activities was largely due to cash used for the 2016 Acquisitions and to purchases of property and equipment at a greater number of stations in the 2016 nine-month period compared to the 2015 nine-month period. During the 2016 nine-month period, we used approximately \$16.5 million of cash for payments related to acquisitions pending as of September 30, 2016.

Net cash provided by financing activities in the 2016 nine-month period was \$500.6 million compared to net cash provided by financing activities of \$167.3 million in the 2015 nine-month period. Cash provided by financing activities increased in the 2016 nine-month period primarily due to: (i) the \$425.0 million of borrowings under the 2016 Term Loan, net of \$8.7 million of deferred loan costs; (ii) the issuance of the \$500.0 million of the Original 2026 Notes, net of \$7.8 million of deferred loan costs, a portion of which was used to repay the outstanding balance of the 2016 Term Loan; and (iii) the issuance of the Additional 2026 Notes at a \$103% premium resulting in net proceeds of \$206.0 million, net of \$3.3 million of deferred loan costs, and the issuance of \$525.0 million of 2024 notes at par, net of \$8.1 million of deferred loan costs. The net proceeds of the offering of the Additional 2026 notes and the 2024 Notes and cash from operations were used in the Tender Offer and Redemption of the 2020 Notes, which used \$27.5 million in premiums. In the 2015 nine-month period, we completed an underwritten public offering of 13.5 million shares of our common stock at a price to the public of \$13.00 per share. The net proceeds of the offering in the 2015 nine-month period were \$167.3 million, after deducting underwriting discounts and expenses.

#### *Liquidity*

As of September 30, 2016, we have no required debt principal payments due over the next twelve months. We estimate that we will make approximately \$90.3 million in debt interest payments over the twelve months immediately following September 30, 2016.

Although our cash flows from operations are subject to a number of risks and uncertainties, we anticipate that our cash on hand, future cash expected to be generated from operations, borrowings from time to time under the Senior Credit Facility (or any such other credit facility as may be in place at the appropriate time) and, potentially, external equity or debt financing, will be sufficient to fund any debt service obligations, estimated capital expenditures and acquisition-related obligations. Any potential equity or debt financing would depend upon, among other things, the costs and availability of such financing at the appropriate time. We also presently believe that our future cash expected to be generated from operations and borrowing availability under the Senior Credit Facility (or any such other credit facility) will be sufficient to fund our future capital expenditures and long-term debt service obligations until at least the maturity date of the term loan under the Senior Credit Facility.

### *Capital Expenditures*

Capital expenditures in the 2016 and 2015 nine-month periods were \$33.2 million and \$15.3 million, respectively. We anticipate that our capital expenditures for the remainder of 2016 will range between approximately \$9.0 million and \$10.0 million.

### *Pending Acquisitions*

For a detailed discussion of our pending acquisitions, see Note 2, "Acquisitions and Dispositions."

### *Other*

We file a consolidated federal income tax return and such state and local tax returns as are required. As a result of our utilization of certain of our net operating loss carryforwards, we have begun, and expect to continue to pay more significant amounts of Federal and state income taxes in 2016 and beyond when compared to 2015 and prior years. However, we do not anticipate paying significant amounts of federal and state income taxes in fourth quarter of 2016.

We do not believe that inflation has had a significant impact on our results of operations nor do we expect it to have a significant effect upon our business in the near future.

During the nine-months ended September 30, 2016, we contributed \$3.0 million to our defined benefit pension plans. During the remainder of 2016, we do not expect to make further contributions to these pension plans.

## Critical Accounting Policies

The preparation of financial statements in conformity with U.S. GAAP requires management to make judgments and estimations that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. We consider our accounting policies relating to intangible assets and income taxes to be critical policies that require judgments or estimations in their application where variances in those judgments or estimations could make a significant difference to future reported results. These critical accounting policies and estimates are more fully disclosed in our 2015 Form 10-K.

## Cautionary Note Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q (this “Quarterly Report”) contains “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933 and Section 21 E of the Securities Exchange Act of 1934. Forward-looking statements are all statements other than those of historical fact. When used in this Quarterly Report, the words “believes,” “expects,” “anticipates,” “estimates,” “will,” “may,” “should” and similar words and expressions are generally intended to identify forward-looking statements. Among other things, statements that describe our expectations regarding our results of operations, general and industry-specific economic conditions, future pension plan contributions, capital expenditures and the timing for completing pending transactions are forward-looking statements. Readers of this Quarterly Report are cautioned that any forward-looking statements, including those regarding the intent, belief or current expectations of our management, are not guarantees of future performance, results or events and involve risks and uncertainties, and that actual results and events may differ materially from those contained in the forward-looking statements as a result of various factors including, but not limited to, those listed under the heading “Risk Factors” in our 2015 Form 10-K and as may be described in subsequently filed quarterly reports on Form 10-Q, as well as the other factors described from time to time in our filings with the Securities and Exchange Commission. Forward-looking statements speak only as of the date they are made. We undertake no obligation to update such forward-looking statements to reflect subsequent events or circumstances.

## Item 3. Quantitative and Qualitative Disclosure About Market Risk

We believe that the market risk of our financial instruments as of September 30, 2016 has not materially changed since December 31, 2015. The market risk profile as of December 31, 2015 is disclosed in our 2015 Form 10-K.

## Item 4. Controls and Procedures

As of the end of the period covered by this Quarterly Report, an evaluation was carried out under the supervision and with the participation of management, including the Chief Executive Officer (“CEO”) and the Chief Financial Officer (“CFO”), of the effectiveness of our disclosure controls and procedures. Based on that evaluation, the CEO and the CFO have concluded that, as of the end of the period covered by this Quarterly Report, our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in reports that we file or furnish under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, and to ensure that such information is accumulated and communicated to our management, including the CEO and CFO, as appropriate to allow timely decisions regarding required disclosures. No system of controls, no matter how well designed and implemented, can provide absolute assurance that the objectives of the system of controls are met and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected.

There were no changes in our internal control over financial reporting during the three-month period ended September 30, 2016 identified in connection with this evaluation that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## **PART II. OTHER INFORMATION**

### **Item 1A. Risk Factors**

Please refer to the information set out under the heading “Risk Factors” in Part I, Item 1A in our 2015 Form 10-K for a description of risk factors that we determined to be most material to our financial condition and results of operation. We do not believe there have been any material changes in these risk factors.

### **Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

In each of March and November 2004, the Board of Directors of the Company authorized the Company to repurchase up to 2.0 million shares of the Company's common stock and Class A common stock. In March 2006, this authorization was increased to an aggregate of 5.0 million shares. As of November 4, 2016, 279,200 shares remain available for repurchase under this authorization, which has no expiration date.

On November 6, 2016, the Board of Directors of the Company authorized the Company to purchase up to an additional \$75.0 million of outstanding common stock prior to December 31, 2019.

The extent to which the Company repurchases any of its shares, the number of shares and the timing of any repurchases will depend on general market conditions, regulatory requirements, alternative investment opportunities and other considerations. The Company is not required to repurchase a minimum number of shares thereunder, and the repurchase authorizations may be modified, suspended or terminated at any time without prior notice.

The Company did not repurchase any shares of common stock or Class A common stock under these authorizations during the three-months ended September 30, 2016.

### **Item 6. Exhibits**

- 4.1 Indenture, dated as of September 14, 2016, by and among Gray Television, Inc., the guarantors signatory thereto and U.S. Bank National Association, as Trustee (incorporated by reference to Exhibit Exhibit 4.1 to our Current Report on Form 8-K filed with the SEC on September 14, 2016)
- 4.2 First Supplemental Indenture, dated as of September 14, 2016, by and among Gray Television, Inc., the guarantors signatory thereto and U.S. Bank National Association, as Trustee (incorporated by reference to Exhibit 4.2 to our Current Report on Form 8-K filed with the SEC on September 14, 2016)
- 31.1 Rule 13(a) – 14(a) Certificate of Chief Executive Officer
- 31.2 Rule 13(a) – 14(a) Certificate of Chief Financial Officer
- 32.1 Section 1350 Certificate of Chief Executive Officer
- 32.2 Section 1350 Certificate of Chief Financial Officer
- 101.INS XBRL Instance Document
- 101.SCH XBRL Taxonomy Extension Schema Document
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document
- 101.DEF XBRL Taxonomy Extension Definition Linkbase Document
- 101.LAB XBRL Taxonomy Extension Label Linkbase Document
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document

**SIGNATURES**

Pursuant to the requirements 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.

GRAY TELEVISION, INC.  
(Registrant)

Date: November 8, 2016

By: /s/ James C. Ryan  
James C. Ryan  
Executive Vice President and Chief Financial Officer

CERTIFICATION

I, Hilton H. Howell, Jr., certify that:

1. I have reviewed this quarterly report on Form 10-Q of Gray Television, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 8, 2016

By: /s/ Hilton H. Howell, Jr.

Hilton H. Howell, Jr.

President and Chief Executive Officer



CERTIFICATION

I, James C. Ryan, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Gray Television, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 8, 2016

By: /s/ James C. Ryan  
James C. Ryan  
Executive Vice President and Chief Financial Officer

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350**

In connection with the accompanying quarterly report on Form 10-Q of Gray Television, Inc. (the "Company") for the quarterly period ended September 30, 2016 (the "Periodic Report"), the undersigned Chief Executive Officer of the Company, hereby certifies pursuant to Title 18, Section 1350 United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of his individual knowledge and belief, that the Periodic Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained in the Periodic Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: November 8, 2016

/s/ Hilton H. Howell, Jr.

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Hilton H. Howell, Jr.

President and Chief Executive Officer

A signed original of this written statement required by Section 906 has been provided to Gray Television, Inc. and will be retained by Gray Television, Inc. and furnished to the SEC or its staff upon request.

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350**

In connection with the accompanying quarterly report on Form 10-Q of Gray Television, Inc. (the "Company") for the quarterly period ended September 30, 2016 (the "Periodic Report"), the undersigned Chief Financial Officer of the Company, hereby certifies pursuant to Title 18, Section 1350 United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of his individual knowledge and belief, that the Periodic Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained in the Periodic Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: November 8, 2016

/s/ James C. Ryan

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James C. Ryan

Executive Vice President and Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to Gray Television, Inc. and will be retained by Gray Television, Inc. and furnished to the SEC or its staff upon request.