

Gray Television, Inc.

Certain Non-GAAP Measures Disclosures

Effects of Acquisitions and Divestitures on Our Results of Operations and Non-GAAP Terms

From January 1, 2016 (the beginning of the earliest period presented) through June 30, 2018, we completed eight acquisition transactions and one divestiture transaction. As more fully described in our 2017 Form 10-K filed with the Securities and Exchange Commission and in our other prior disclosures, these transactions added a net total of 21 television stations to our operations. We refer to these transactions, collectively, as the “Acquisitions.”

From time to time, Gray supplements its financial results prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) by disclosing the non-GAAP financial measures Broadcast Cash Flow, Broadcast Cash Flow Less Cash Corporate Expenses, Free Cash Flow, Operating Cash Flow as defined in the Senior Credit Agreement and Total Leverage Ratio and Net of All Cash. These non-GAAP amounts are used by us to approximate amounts used to calculate key financial performance covenants contained in our debt agreements and are used with our GAAP data to evaluate our results and liquidity.

We define Broadcast Cash Flow as net income plus loss from early extinguishment of debt, corporate and administrative expenses, non-cash stock based compensation, depreciation and amortization (including amortization of intangible assets and program broadcast rights), any loss on disposal of assets, any miscellaneous expense, interest expense, any income tax expense and non-cash 401(k) expense, less any gain on disposal of assets, any miscellaneous income, any income tax benefits and payments for program broadcast rights.

We define Broadcast Cash Flow Less Cash Corporate Expenses as net income plus loss from early extinguishment of debt, non-cash stock based compensation, depreciation and amortization (including amortization of intangible assets and program broadcast rights), any loss on disposal of assets, any miscellaneous expense, interest expense, any income tax expense, and non-cash 401(k) expense, less any gain on disposal of assets, any miscellaneous income, any income tax benefits and any payments for program broadcast rights.

We define Free Cash Flow as net income plus loss from early extinguishment of debt, non-cash stock based compensation, depreciation and amortization (including amortization of intangible assets and program broadcast rights), any loss on disposal of assets, any miscellaneous expense, amortization of deferred financing costs, any income tax expense and non-cash 401(k) expense, less any gain on disposal of assets, any miscellaneous income, any income tax benefits, payments for program broadcast rights, contributions to pension plans, amortization of original issue premium on our debt, purchases of property and equipment (net of reimbursements) and the payment of income taxes (net of any refunds received).

We define Operating Cash Flow as defined in our Senior Credit Agreement as net income plus loss from early extinguishment of debt, non-cash stock based compensation, depreciation and amortization (including amortization of intangible assets and program broadcast rights), any loss on disposal of assets,

interest expense, any income tax expense, non-cash 401(k) expense and trade expense less any gain on disposal of assets, any income tax benefits, payments for program broadcast rights, trade income, and contributions to pension plans. Operating Cash Flow as defined in our Senior Credit Agreement gives effect to the revenue and broadcast expenses of the Acquisitions as if they had been acquired or divested, respectively, on April 1, 2016. It also gives effect to certain operating synergies expected from the Acquisitions and related financings and adds back professional fees incurred in completing the Acquisitions. Certain of the financial information related to the Acquisitions has been derived from, and adjusted based on, unaudited, un-reviewed financial information prepared by other entities, which Gray cannot independently verify. We cannot assure you that such financial information would not be materially different if such information were audited or reviewed and no assurances can be provided as to the accuracy of such information, or that our actual results would not differ materially from this financial information if the Acquisitions had been completed at the stated date. In addition, the presentation of Operating Cash Flow as Defined in the Senior Credit Agreement and the adjustments to such information, including expected synergies resulting from such transactions, may not comply with GAAP or the requirements for pro forma financial information under Regulation S-X under the Securities Act.

Our Total Leverage Ratio, Net of All Cash is determined by dividing our Adjusted Total Indebtedness, Net of All Cash by our Operating Cash Flow as defined in our Senior Credit Agreement, divided by two. Our Adjusted Total Indebtedness, Net of All Cash represents the total outstanding principal of our long-term debt, plus certain other obligations as defined in our Senior Credit Agreement, less all cash. Our Operating Cash Flow as defined in our Senior Credit Agreement, divided by two, represents our average annual Operating Cash Flow as defined in our Senior Credit Agreement for the preceding eight quarters.

These non-GAAP terms are not defined in GAAP and our definitions may differ from, and therefore not be comparable to, similarly titled measures used by other companies, thereby limiting their usefulness. Such terms are used by management in addition to, and in conjunction with, results presented in accordance with GAAP and should be considered as supplements to, and not as substitutes for, net income and cash flows reported in accordance with GAAP.

Reconciliation, in thousands – Quarter:

	Three Months Ended June 30,		
	2018	2017	2016
Net income	\$ 40,705	\$ 70,561	\$ 17,662
Adjustments to reconcile from net income to Free Cash Flow:			
Depreciation	13,543	12,841	11,617
Amortization of intangible assets	5,153	6,657	4,242
Non-cash stock-based compensation	1,214	1,434	1,272
(Gain) loss on disposals of assets, net	(794)	(77,326)	1,228
Miscellaneous income, net (1)	(702)	(163)	(101)
Interest expense	24,831	23,791	24,269
Loss from early extinguishment of debt	-	311	-
Income tax expense	14,856	47,893	11,897
Amortization of program broadcast rights	5,258	5,013	4,813
Common stock contributed to 401(k) plan excluding corporate 401(k) contributions	-	8	7
Payments for program broadcast rights	(5,392)	(5,274)	(5,153)
Corporate and administrative expenses excluding depreciation, amortization of intangible assets and non-cash stock-based compensation	9,598	7,331	7,554
Broadcast Cash Flow (1)	108,270	93,077	79,307
Corporate and administrative expenses excluding depreciation, amortization of intangible assets and non-cash stock-based compensation	(9,598)	(7,331)	(7,554)
Broadcast Cash Flow Less Cash Corporate Expenses (1)	98,672	85,746	71,753
Contributions to pension plans	-	-	(1,113)
Interest expense	(24,831)	(23,791)	(24,269)
Amortization of deferred financing costs	1,158	1,158	1,196
Amortization of net original issue premium on senior notes	(152)	(152)	(216)
Purchases of property and equipment	(13,635)	(6,438)	(7,544)
Reimbursements of property and equipment purchases	909	-	-
Income taxes paid, net of refunds	(3,597)	(640)	(13,879)
Free Cash Flow	\$ 58,524	\$ 55,883	\$ 25,928

(1) Amounts in 2017 and 2016 have been reclassified to give effect to the implementation of ASU 2017-07.

Reconciliation of Total Leverage Ratio, Net of All Cash, in thousands except for ratio:

	Eight Quarters Ended June 30, 2018
Net income	\$ 358,223
Adjustments to reconcile from net income to operating cash flow as defined in our Senior Credit Agreement:	
Depreciation	102,390
Amortization of intangible assets	44,127
Non-cash stock-based compensation	14,220
(Gain) loss on disposal of assets, net	(75,066)
Interest expense	196,032
Loss from early extinguishment of debt	34,838
Income tax (benefit) expense	(22,312)
Amortization of program broadcast rights	41,429
Common stock contributed to 401(k) plan	31
Payments for program broadcast rights	(41,577)
Pension expense	(931)
Contributions to pension plans	(4,539)
Adjustments for stations acquired or divested, financings and expected synergies during the eight quarter period	35,951
Professional fees related to acquisitions and divestitures	6,182
Operating Cash Flow as defined in our Senior Credit Agreement	\$ 688,998
Operating Cash Flow as defined in our Senior Credit Agreement, divided by two	\$ 344,499
	June 30, 2018
Adjusted Total Indebtedness:	
Total outstanding principal, including current portion	\$ 1,857,026
Capital leases and other debt	691
Cash	(510,577)
Adjusted Total Indebtedness, Net of All Cash	\$ 1,347,140
Total Leverage Ratio, Net of All Cash	3.91