

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, 2019 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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

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

Large accelerated filer
Non-accelerated filer
Emerging growth company

Accelerated filer
Smaller reporting company

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

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each Class	Trading Symbol(s)	Name of each exchange on which registered
Class A common stock (no par value)	GTN.A	New York Stock Exchange
common stock (no par value)	GTN	New York Stock Exchange

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

Common Stock (No Par Value)

93,633,773 shares outstanding as of October 31, 2019

Class A Common Stock (No Par Value)

6,881,192 shares outstanding as of October 31, 2019

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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 millions)

	<u>September 30,</u> <u>2019</u>	<u>December 31,</u> <u>2018</u>
Assets:		
Current assets:		
Cash	\$ 326	\$ 667
Accounts receivable, less allowance for doubtful accounts of \$8 and \$5, respectively	402	184
Current portion of program broadcast rights, net	34	15
Prepaid and other current assets	27	7
Total current assets	<u>789</u>	<u>873</u>
Property and equipment, net	695	363
Operating leases right of use asset	52	-
Broadcast licenses	3,558	1,530
Goodwill	1,449	612
Other intangible assets, net	469	53
Investments in broadcasting and technology companies	17	17
Restricted cash	-	752
Other	75	13
Total assets	<u>\$ 7,104</u>	<u>\$ 4,213</u>

See notes to condensed consolidated financial statements.

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

	<u>September 30,</u> <u>2019</u>	<u>December 31,</u> <u>2018</u>
Liabilities and stockholders' equity:		
Current liabilities:		
Accounts payable	\$ 13	\$ 8
Employee compensation and benefits	59	35
Accrued interest	65	34
Accrued network programming fees	29	22
Other accrued expenses	25	18
Federal and state income taxes	18	14
Current portion of program broadcast obligations	37	15
Deferred revenue	12	4
Dividends payable	13	-
Current portion of operating lease liabilities	7	-
Current portion of long-term debt	14	-
Total current liabilities	292	150
Long-term debt, less current portion and deferred financing costs	3,881	2,549
Program broadcast obligations, less current portion	8	5
Deferred income taxes	780	285
Accrued pension costs	30	33
Operating lease liabilities	47	-
Other	13	4
Total liabilities	5,051	3,026
Commitments and contingencies (Note 11)		
Series A Perpetual Preferred Stock, no par value; cumulative; redeemable; designated 1,500,000 shares, issued and outstanding 650,000 shares and 0 shares, (\$650 and \$0 aggregate liquidation value, respectively)	650	-
Stockholders' equity:		
Common stock, no par value; authorized 200,000,000 shares, issued 101,714,180 shares and 89,298,943 shares, outstanding 93,633,773 shares and 82,022,500 shares, respectively	1,089	907
Class A common stock, no par value; authorized 25,000,000 shares, issued 8,768,959 shares and 8,569,149 shares, outstanding 6,881,192 shares and 6,729,035 shares, respectively	29	27
Retained earnings	423	372
Accumulated other comprehensive loss, net of income tax benefit	(26)	(21)
	1,515	1,285
Treasury stock at cost, common stock, 8,080,407 shares and 7,276,443 shares, respectively	(86)	(72)
Treasury stock at cost, class A common stock, 1,887,767 shares and 1,840,114 shares, respectively	(26)	(26)
Total stockholders' equity	1,403	1,187
Total liabilities and stockholders' equity	<u>\$ 7,104</u>	<u>\$ 4,213</u>

See notes to condensed consolidated financial statements.

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

	<u>Three Months Ended</u> <u>September 30,</u>		<u>Nine Months Ended</u> <u>September 30,</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Revenue (less agency commissions):				
Broadcasting	\$ 501	\$ 279	\$ 1,481	\$ 756
Production companies	16	-	62	-
Total revenue (less agency commissions)	517	279	1,543	756
Operating expenses before depreciation, amortization and (gain) loss on disposal of assets, net:				
Broadcast	316	145	986	437
Production companies	13	-	57	-

Corporate and administrative	14	11	83	30
Depreciation	20	13	60	41
Amortization of intangible assets	29	5	86	16
(Gain) loss on disposal of fixed assets, net	(14)	(3)	(27)	(6)
Operating expenses	378	171	1,245	518
Operating income	139	108	298	238
Other income (expense):				
Miscellaneous income, net	-	-	4	2
Interest expense	(57)	(25)	(173)	(74)
Income before income taxes	82	83	129	166
Income tax expense	23	22	44	43
Net income	59	61	85	123
Preferred stock dividends	13	-	39	-
Net income attributable to common stockholders	<u>\$ 46</u>	<u>\$ 61</u>	<u>\$ 46</u>	<u>\$ 123</u>
Basic per share information:				
Net income attributable to common stockholders	<u>\$ 0.46</u>	<u>\$ 0.70</u>	<u>\$ 0.46</u>	<u>\$ 1.39</u>
Weighted-average shares outstanding	<u>100</u>	<u>88</u>	<u>100</u>	<u>88</u>
Diluted per share information:				
Net income attributable to common stockholders	<u>\$ 0.46</u>	<u>\$ 0.69</u>	<u>\$ 0.46</u>	<u>\$ 1.38</u>
Weighted-average shares outstanding	<u>101</u>	<u>89</u>	<u>100</u>	<u>89</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 STATEMENTS OF STOCKHOLDERS' EQUITY (Unaudited)

(in millions, except for number of shares)

	Class A Common Stock		Common Stock		Retained Earnings	Class A Treasury Stock		Common Treasury Stock		Accumulated Other Comprehensive Loss	Total
	Shares	Amount	Shares	Amount		Shares	Amount	Shares	Amount		
Balance at December 31, 2018	8,569,149	\$ 27	89,298,943	\$ 907	\$ 372	(1,840,114)	\$ (26)	(7,276,443)	\$ (72)	\$ (21)	\$ 1,187
Net loss	-	-	-	-	(18)	-	-	-	-	-	(18)
Preferred stock dividends	-	-	-	-	(13)	-	-	-	-	-	(13)
Issuance of common stock:											
Acquisitions of television businesses and licenses	-	-	11,499,945	170	-	-	-	-	-	-	170
401(k) Plan	-	-	196,509	4	-	-	-	-	-	-	4
2017 Equity and Incentive Compensation Plan - Restricted stock awards	199,810	-	677,602	-	-	(47,653)	-	(123,167)	(3)	-	(3)
Stock-based compensation	-	-	-	2	-	-	-	-	-	-	2
Adoption of ASU 2018-02	-	-	-	-	2	-	-	-	-	(2)	-
Balance at March 31, 2019	8,768,959	\$ 27	101,672,999	\$ 1,083	\$ 343	(1,887,767)	\$ (26)	(7,399,610)	\$ (75)	\$ (23)	\$ 1,329
Net income	-	-	-	-	44	-	-	-	-	-	44
Preferred stock dividends	-	-	-	-	(13)	-	-	-	-	-	(13)

Forfeiture of restricted stock awards	-	-	(91,057)	(1)	-	-	-	-	-	-	(1)
Stock-based compensation	-	1	-	1	-	-	-	-	-	-	2
Balance at June 30, 2018	<u>8,569,149</u>	<u>\$ 26</u>	<u>89,298,943</u>	<u>\$ 904</u>	<u>\$ 223</u>	<u>(1,840,114)</u>	<u>\$ (25)</u>	<u>(7,276,443)</u>	<u>\$ (73)</u>	<u>\$ (22)</u>	<u>\$ 1,033</u>
Net income	-	-	-	-	61	-	-	-	-	-	61
Stock-based compensation	-	-	-	2	-	-	-	-	-	-	2
Balance at September 30, 2018	<u>8,569,149</u>	<u>\$ 26</u>	<u>89,298,943</u>	<u>\$ 906</u>	<u>\$ 284</u>	<u>(1,840,114)</u>	<u>\$ (25)</u>	<u>(7,276,443)</u>	<u>\$ (73)</u>	<u>\$ (22)</u>	<u>\$ 1,096</u>

See notes to condensed consolidated financial statements.

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

	Nine Months Ended September 30,	
	2019	2018
Operating activities		
Net income	\$ 85	\$ 123
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	60	41
Amortization of intangible assets	86	16
Amortization of deferred loan costs	9	3
Amortization of restricted stock awards	10	5
Amortization of program broadcast rights	30	16
Payments on program broadcast obligations	(33)	(16)
Common stock contributed to 401(k)	4	-
Deferred income taxes	34	44
Gain on disposals of assets, net	(27)	(6)
Other	(6)	(2)
Changes in operating assets and liabilities:		
Accounts receivable	29	(9)
Prepaid income taxes	-	7
Other current assets	(7)	1
Accounts payable	2	(3)
Employee compensation, benefits and pension cost	(6)	(3)
Accrued network fees and other expenses	(42)	(1)
Accrued interest	30	(4)
Income taxes payable	(9)	(34)
Deferred revenue	6	8
Net cash provided by operating activities	<u>255</u>	<u>186</u>
Investing activities		
Acquisitions of television businesses and licenses, net of cash acquired	(2,823)	-
Proceeds from sale of television station	231	-
Purchases of property and equipment	(73)	(35)
Proceeds from FCC Repack (Note 1)	32	7
Proceeds from asset sales	3	-
Acquisition prepayments	(12)	(5)
Other	(4)	-
Net cash used in investing activities	<u>(2,646)</u>	<u>(33)</u>
Financing activities		
Proceeds from borrowings on long-term debt	1,400	-
Repayments of borrowings on long-term debt	(11)	(40)
Payments for the repurchase of common stock	(11)	(20)
Payment of preferred stock dividends	(26)	-
Deferred and other loan costs	(50)	-
Payments for taxes related to net share settlement of equity awards	(4)	(4)
Net cash provided by (used in) financing activities	<u>1,298</u>	<u>(64)</u>
Net (decrease) increase in cash	(1,093)	89

Cash and restricted cash at beginning of period	1,419	462
Cash at end of period	<u>\$ 326</u>	<u>\$ 551</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, 2018, which was derived from the Company’s audited financial statements as of December 31, 2018, and our accompanying unaudited condensed consolidated financial statements as of September 30, 2019 and for the periods ended September 30, 2019 and 2018, 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 presentation have been included. Subsequent to the Raycom Merger (as defined herein) we manage our business on the basis of two operating segments, broadcasting and production companies. 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, 2018 (the “2018 Form 10-K”). Our financial condition as of, and operating results for the nine-month period ended September 30, 2019 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, 2019. In addition, we have changed our reporting increment for dollars from thousands to millions.

Overview

We are a television broadcast company headquartered in Atlanta, Georgia. On January 2, 2019, we completed the Raycom Merger (as defined herein), which completed our transformation from a small, regional broadcaster to a leading media company with nationwide scale based on high-quality stations with exceptional talent in attractive markets. Upon the completion of the Raycom Merger on January 2, 2019, we became the largest owner of top-rated local television stations and digital assets in the United States. Currently, we own television stations in 93 television markets broadcasting over 400 separate program streams including approximately 150 affiliates of the ABC Network (“ABC”), the NBC Network (“NBC”), the CBS Network (“CBS”) and the FOX Network (“FOX”). We refer to these major broadcast networks collectively as the “Big Four” networks. Our television stations ranked first or second among all local television stations in 87 of our 93 markets between December 2017 and November 2018. Our station portfolio reaches approximately 24% of total United States television households. We also own video program production, marketing, and digital businesses including Raycom Sports, Tupelo-Raycom, and RTM Studios, the producer of PowerNation programs and content which we refer to collectively as our “production companies”.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Our actual results could differ materially from these estimated amounts. Our most significant estimates are of our allowance for doubtful accounts in receivables, valuation of goodwill and intangible assets, amortization of program rights and intangible assets, 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 available to common stockholders by the weighted-average number of our 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 diluted weighted-average shares outstanding calculation, unless their inclusion would be antidilutive.

The following table reconciles basic weighted-average shares outstanding to diluted weighted-average shares outstanding for the three and nine-month periods ended September 30, 2019 and 2018, respectively (in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Weighted-average shares outstanding-basic	100	88	100	88
Common stock equivalents for stock options and restricted stock	1	1	-	1
Weighted-average shares outstanding-diluted	101	89	100	89

Accumulated Other Comprehensive Loss

Our accumulated other comprehensive loss balances as of September 30, 2019 and December 31, 2018, consisted of adjustments to our pension liability and the related income tax effect. Our comprehensive (loss) income for the nine-months ended September 30, 2019 consisted of net income and an adjustment to the tax effect of our pension liability as a result of our adoption of Accounting Standards Update (“ASU”) 2018-02, *Income Statement - Reporting Comprehensive Income (Topic 220) – Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*. As of September 30, 2019 and December 31, 2018 the balances were as follows (in millions):

	September 30, 2019	December 31, 2018
Accumulated balances of items included in accumulated other comprehensive loss:		
Increase in pension liability	\$ (35)	\$ (35)
Income tax benefit	(9)	(14)
Accumulated other comprehensive loss	<u>\$ (26)</u>	<u>\$ (21)</u>

Property and Equipment

Property and equipment are carried at cost. Depreciation is computed principally by the straight-line method. The following table lists the components of property and equipment by major category (dollars in millions):

	September 30, 2019	December 31, 2018	Estimated Useful Lives (in years)
Property and equipment:			
Land	\$ 115	\$ 52	
Buildings and improvements	278	166	7 to 40
Equipment	751	548	3 to 20
	1,144	766	
Accumulated depreciation	(449)	(403)	
Total property and equipment, net	<u>\$ 695</u>	<u>\$ 363</u>	

Maintenance, repairs and minor replacements are charged to operations as incurred; major replacements and betterments are capitalized. The cost of any assets divested, 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 April 2017, the Federal Communications Commission (the “FCC”) began a process of reallocating the broadcast spectrum (the “Repack”). Specifically, the FCC is requiring certain television stations to change channels and/or modify their transmission facilities. The U.S. Congress passed legislation which provides the FCC with a \$1.7 billion fund to reimburse all reasonable costs incurred by stations operating under a full power license and a portion of the costs incurred by stations operating under a low power license that are reassigned to new channels. Subsequent legislation in March 2018 appropriated an additional \$1.0 billion for the Repack fund, of which up to \$750.0 million may be made available to reimburse the Repack costs of full power, Class A television stations and multichannel video programming distributors. Other funds are earmarked to assist low power television stations and for other transition costs. The sufficiency of the FCC’s fund to reimburse for Repack costs is dependent upon a number of factors including the amounts to be reimbursed to other industry participants for Repack costs. Therefore, we cannot predict whether the fund will be sufficient to reimburse our Repack costs to the extent authorized under the legislation. Forty-seven of our current full power stations and thirty-seven of our current low power stations are affected by the Repack. The Repack process began in the summer of 2017 and will take approximately three years to complete. The majority of our costs associated with the Repack qualify for capitalization, rather than expense. Upon receipt of funds reimbursing us for our Repack costs, we record those proceeds as a component of our (gain) loss on disposal of assets, net.

The following tables provide additional information related to gain on disposal of assets, net included in our condensed consolidated statements of operations and purchases of property and equipment included in our condensed consolidated statements of cash flows (in millions):

	Three Months Ended		Nine Months Ended	
	September 30		September 30	
	2019	2018	2019	2018
Gain (loss) on disposal of assets, net:				
Proceeds from sale of assets	\$ -	\$ -	\$ 3	\$ -
Proceeds from FCC - Repack	15	4	32	7
Net book value of assets disposed	(1)	(1)	(5)	(1)
Other	-	-	(3)	-
Total	\$ 14	\$ 3	\$ 27	\$ 6
Purchase of property and equipment:				
Recurring purchases - operations			\$ 38	\$ 16
Repack			34	17
Repack related			1	2
Total			\$ 73	\$ 35

Allowance for Doubtful Accounts

Our allowance for doubtful accounts is equal to a portion 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.

Recent Accounting Pronouncements

In June 2016, the Financial Accounting Standards Board (“FASB”) issued ASU No. 2016-13, *Financial Instruments - Credit Losses* (Topic 326). The standard requires entities to estimate loss of financial assets measured at amortized cost, including trade receivables, debt securities and loans, using an expected credit loss model. The expected credit loss model differs from the previous incurred losses model primarily in that the loss recognition threshold of “probable” has been eliminated and that expected loss should consider reasonable and supportable forecasts in addition to the previously considered past events and current conditions. Additionally, the guidance requires additional disclosures related to the further disaggregation of information related to the credit quality of financial assets by year of the asset’s origination for as many as five years. In November 2018, the FASB issued ASU No. 2018-19 to clarify the scope of the guidance in the amendments in ASU 2016-13. Entities must apply the standard provision as a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective. The standard is effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. Early adoption is permitted for annual periods beginning after December 15, 2018, and interim periods within those fiscal years. The adoption of this guidance requires a change in disclosures related to our accounts receivable and allowance for doubtful accounts only and is not expected to have a material impact on our financial statements.

In January 2017, the FASB issued ASU 2017-04, *Intangibles – Goodwill and Other* (Topic 350) – *Simplifying the Test for Goodwill Impairment*. ASU 2017-04 amends the guidance of U.S. GAAP with the intent of simplifying how an entity is required to test goodwill for impairment by eliminating Step 2 from the goodwill impairment test. Step 2 measures a goodwill impairment loss by comparing the implied fair value of a reporting unit’s goodwill with the carrying amount of that goodwill. After adoption of the standard, the annual, or interim, goodwill impairment test will be performed by comparing the fair value of a reporting unit with its carrying amount. An impairment charge would be recognized for the amount by which the carrying amount exceeds the reporting unit’s fair value; however, the loss recognized will not exceed the total amount of goodwill allocated to that reporting unit. The standard is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The standard allows for early adoption, but we have not yet made a determination as to whether to early-adopt this standard. We do not expect that the adoption of this standard will have a material impact on our financial statements.

In August 2018, the FASB issued ASU 2018-14, *Compensation Retirement Benefits Defined Benefit Plans General* (Subtopic 715-20) - *Disclosure Framework Changes to the Disclosure Requirements for Defined Benefit Plans*. ASU 2018-14 adds, removes, and modifies disclosure requirements related to defined benefit pension and other postretirement plans. The update amends only annual disclosure requirements. Retrospective adoption of the update is required in fiscal 2022. The standard allows for early adoption, but we have not yet made a determination as to whether to early-adopt this standard. The adoption of this guidance requires a change in disclosures only and is not expected to have a material impact on our financial statements.

Adoption of Accounting Standards and Reclassifications

In February 2016, the FASB issued ASU 2016-02 – *Leases* (Topic 842). ASU 2016-02 superseded Topic 840, *Leases*, and thus superseded 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. In July 2018, the FASB issued ASU 2018-11, *Leases* (Topic 842) – *Targeted Improvements*, which provided the option of applying the requirements of the new lease standard in the period of adoption using the modified retrospective approach with no restatement of comparative periods. We adopted the standard effective January 1, 2019, using the modified retrospective approach provided in ASU 2018-11. The transition guidance allowed for the election of a number of practical expedients. We elected the package of practical expedients and the short-term lease practical expedient. The package of practical expedients allowed us to carryforward our classification of existing leases. With the election of the short-term practical expedient, we are not required to recognize on our consolidated balance sheet, the present value of leases with an initial term of twelve months or less. We also implemented internal controls and key system functionality to enable the preparation of financial information on adoption. The standard had a material impact in our consolidated balance sheets but did not have an impact in our consolidated income statements. Upon the adoption of this standard, we recorded a right of use (“ROU”) asset and a lease obligation liability of approximately \$21 million. In addition, upon the completion of the Raycom Merger on January 2, 2019, we implemented these standards to the leases acquired in the Raycom Merger and recorded a ROU asset and a lease obligation liability of approximately \$52 million for each. Please refer to Note 3 “Acquisitions and Divestitures” and Note 10 “Leases” for further information.

In January 2017, the FASB issued ASU 2017-01, *Business Combinations* (Topic 805) – *Clarifying the Definition of a Business*. ASU 2017-01 adds guidance to assist entities in the determination of whether an acquisition (or disposal) represents assets or a business. The update provides a test to determine whether or not an acquisition is a business. If substantially all of the fair value of the assets acquired is concentrated in a single asset or a group of similar identifiable assets, the acquired assets do not represent a business. If this test is not met, the update provides further guidance to evaluate if the acquisition represents a business. The Company adopted the guidance on January 1, 2019. The adoption did not have an impact on our financial statements.

In February 2018, the FASB issued ASU 2018-02, *Income Statement - Reporting Comprehensive Income* (Topic 220) – *Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*. ASU 2018-02 allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act of 2017 (“TCJA”). Consequently, the amendments eliminate the stranded tax effects resulting from the TCJA and will improve the usefulness of information reported to financial statement users. However, because the amendments only relate to the reclassification of the income tax effects of the TCJA, the underlying guidance that requires that the effect of a change in tax laws or rates be included in income from continuing operations is not affected. We have adopted this standard effective on January 1, 2019 and have recorded an adjustment of \$5 million to increase our retained earnings and accumulated other comprehensive loss.

Certain amounts in the condensed consolidated statement of cash flows have also been reclassified to conform to the current presentation.

2. Revenue

Revenue Recognition

We recognize revenue when we have completed a specified service and effectively transferred the control of that service to a customer in return for an amount of consideration we expect to be entitled to receive. The amount of revenue recognized is determined by the amount of consideration specified in a contract with our customers. We have elected to exclude taxes assessed by a governmental authority on transactions with our customers from our revenue. Any unremitted balance is included in current liabilities on our balance sheet.

We record a deposit liability for cash deposits received from our customers that are to be applied as payment once the performance obligation arises and is satisfied in the manner stated above. These deposits are recorded as deposit liabilities on our balance sheet. When we invoice our customers for completed performance obligations, we are unconditionally entitled to receive payment of the invoiced amounts. Therefore, we record invoiced amounts in accounts receivable on our balance sheet. We require amounts payable under advertising contracts with our political advertising customers to be paid for in advance. We record the receipt of this cash as a deposit liability. Once the advertisement has been broadcast, the revenue is earned, and we record the revenue and reduce the balance in this deposit liability account. We recorded \$3 million of revenue in the nine months ended September 30, 2019 that was included in the deposit liability balance as of December 31, 2018. The deposit liability balance is included in deferred revenue on our condensed consolidated balance sheets. The deposit liability balance was \$11 million and \$3 million as of September 30, 2019 and December 31, 2018, respectively.

Disaggregation of Revenue

Revenue from our production companies segment is generated through our direct sales channel. Revenue from our broadcast and other segment is generated through both our direct and advertising agency intermediary sales channels. The following table presents our revenue from contracts with customers disaggregated by type of service and sales channel (in millions):

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2019	2018	2019	2018
Market and service type:				
Advertising:				
Local	\$ 218	\$ 106	\$ 655	\$ 325
National	56	29	162	84
Political	22	48	30	72
Total advertising	296	183	847	481
Retransmission consent	196	92	601	262
Production companies	16	-	62	-
Other	9	4	33	13
Total revenue	\$ 517	\$ 279	\$ 1,543	\$ 756
Sales channel:				
Direct	\$ 306	\$ 139	\$ 946	\$ 407
Advertising agency intermediary	211	140	597	349
Total revenue	\$ 517	\$ 279	\$ 1,543	\$ 756

3. Acquisitions and Divestitures

During the nine-months ended September 30, 2019, we completed acquisition and divestiture transactions which we believe will, among other things, increase our revenues and cash flows from operating activities, and allow us to operate more efficiently and effectively by increasing our scale and could provide us with, among other things, the ability to negotiate more favorable terms in our agreements with third parties.

Raycom Merger

On January 2, 2019, we completed an acquisition of all the equity interests of Raycom Media, Inc. ("Raycom"). In connection with the acquisition of Raycom and on the same date, Gray assumed and completed Raycom's pending acquisitions of WUPV-DT in the Richmond, VA market and KYOU-TV in the Ottumwa, IA market. To facilitate regulatory approval of the acquisition of Raycom and to satisfy the conditions placed on the acquisition by the Antitrust Division of the U.S. Department of Justice (the "DOJ") and the FCC, we completed the divestiture of nine television stations in overlapping markets. We refer to the acquisition of Raycom, WUPV-DT and KYOU-TV and the divestiture of the stations in the nine overlapping markets collectively as the "Raycom Merger."

We believe the completion of the Raycom Merger is a significant step in our pursuit of strategic growth through accretive acquisition opportunities. The Raycom Merger completed our transformation from a small, regional broadcaster to a leading media company with nationwide scale based on high-quality stations with exceptional talent in attractive markets. The following table lists the stations acquired and retained, net of divestitures:

DMA Rank	Designated Market Area ("DMA")	Station Call Letters	Network Affiliation
11	Tampa-St. Petersburg (Sarasota), FL	WWSB	ABC
19	Cleveland-Akron (Canton)	WOIO	CBS
19	Cleveland-Akron (Canton)	WUAB	CW
23	Charlotte, NC	WBTV	CBS
35	Cincinnati, OH	WXIX	FOX
37	West Palm Beach-Ft. Pierce, FL	WFLX	FOX
43	Birmingham (Ann and Tusc)	WBRC	FOX
48	Louisville, KY	WAVE	NBC
50	New Orleans, LA	WWUE	FOX
51	Memphis, TN	WMC	NBC
56	Richmond- Petersburg, VA	WWBT	NBC
56	Richmond- Petersburg, VA	WUPV	CW
66	Honolulu, HI	KHNL	NBC
66	Honolulu, HI	KGMB	CBS
66	Honolulu, HI	KHBC	NBC/CBS
66	Honolulu, HI	KOGG	NBC/CBS
73	Tucson (Nogales), AZ	KOLD	CBS
74	Columbia, SC	WIS	NBC
79	Huntsville- Decatur (Florence), AL	WAFF	NBC
88	Paducah, KY/Cape Girardeau, MO/Harrisburg, IL	KFVS	CBS
90	Shreveport, LA	KSLA	CBS
92	Jackson, MS	WLBT	NBC
93	Savannah, GA	WTOC	CBS
94	Charleston, SC	WCSC	CBS
95	Myrtle Beach-Florence	WMBF	NBC
97	Baton Rouge, LA	WAFB	CBS
97	Baton Rouge, LA	WBXH	MY
100	Boise, ID	KNIN	FOX
103	Evansville, IN	WFIE	NBC
114	Tyler-Longview, TX	KLTV	ABC
114	Tyler-Longview, TX	KTRE	ABC
116	Montgomery, AL	WSFA	NBC
127	Columbus, GA (Opelika, AL)	WTVM	ABC
129	Wilmington, NC	WECT	NBC
131	Amarillo, TX	KFDA	CBS
131	Amarillo, TX	KEYU	TEL
142	Odessa/Midland, TX	KCWO	CW
142	Odessa/Midland, TX	KTLE	TEL
143	Lubbock, TX	KCBD	NBC
148	Wichita Falls, TX & Lawton, OK	KSWO	ABC
148	Wichita Falls, TX & Lawton, OK	KKTM	TEL
152	Albany, GA	WALB	NBC/ABC
156	Biloxi-Gulfport, MS	WLOX	ABC/CBS
168	Hattiesburg/Laurel, MS	WDAM	NBC/ABC
180	Jonesboro, AR	KAIT	ABC/NBC
200	Ottumwa, IA/Kirksville, MO	KYOU	FOX/NBC

The divestiture transactions included one station owned by us. On December 31, 2018, we sold the assets of WSWG-TV (DMA-152) in the Albany, Georgia television market for \$8.5 million, excluding transaction related expenses to Marquee Broadcasting, Inc. and Marquee Broadcasting Georgia, Inc. In connection with the divestiture of the assets of WSWG-TV, we recorded a gain of approximately \$4.8 million in the fourth quarter of 2018.

On January 2, 2019, the following stations were acquired from Raycom and their assets were immediately divested in eight markets as follows (dollars in millions):

Purchaser	Total Cash Consideration Received	Television Station	Location	DMA
Lockwood Broadcasting, Inc.	\$ 67	WTNZ	Knoxville, TN	60
		WFXG	Augusta, GA	105
		WPGX	Panama City, FL	150
		WDFX	Dothan, AL	173
Scripps Media, Inc.	55	KXXV	Waco-Temple-Bryan, TX	89
		KRHD	Waco-Temple-Bryan, TX	89
		WTXL	Tallahassee, FL	112
TEGNA, Inc.	109	WTOL	Toledo, OH	71
		KWES	Odessa - Midland, TX	142
Total	\$ 231			

The allocated portion of net consideration paid for the assets and liabilities divested for the stations in these eight overlap markets was approximately \$234 million.

The net consideration paid to acquire Raycom consisted of \$2.84 billion of cash, 11.5 million shares of our common stock, valued at \$170 million (a non-cash financing transaction), and \$650 million of a new series of preferred stock (a non-cash financing transaction), for a total of \$3.66 billion. Please refer to Note 6 "Stockholders Equity" and Note 7 "Preferred Stock" for further information. The cash consideration paid to acquire the two stations that Raycom had previously agreed to acquire (KYOU-TV and WUPV-TV listed above) was \$17 million. The following table summarizes the consideration paid related to the Raycom Merger and the amount representing the net assets acquired and liabilities assumed (in millions):

	Raycom	KYOU and WUPV	Net Consideration
Purchase Price	\$ 3,660	\$ 17	\$ 3,677
Less - consideration allocated to all assets acquired and net of liabilities assumed for the Raycom overlap market stations which were also divested on January 2, 2019	(234)	-	(234)
Purchase consideration for assets acquired and liabilities assumed net of divestitures	\$ 3,426	\$ 17	\$ 3,443

United Acquisition

On May 1, 2019, we acquired the assets of WWNY-TV (CBS) and WNYF-CD (FOX) in Watertown, New York (DMA 178) and KEYC-TV (CBS/FOX) in Mankato, Minnesota (DMA 199) from United Communications Corporation (the "United Acquisition") for an adjusted purchase price of \$8 million of cash, excluding transaction related expenses. We began operating those stations on March 1, 2019 under a local programming and marketing agreement, which increased the total number of our markets from 91 to 93.

The following table summarizes the preliminary values of the assets acquired, liabilities assumed and resulting goodwill of the Raycom Merger and the United Acquisition together, the “2019 Acquisitions” (in millions):

	<u>Raycom</u>	<u>United</u>	<u>Total</u>
Cash	\$ 116	\$ -	\$ 116
Accounts receivable, net	227	3	230
Program broadcast rights	12	-	12
Other current assets	26	-	26
Property and equipment	311	10	321
Operating lease right of use asset	52	-	52
Goodwill	834	3	837
Broadcast licenses	2,004	24	2,028
Other intangible assets	493	8	501
Other non-current assets	23	-	23
Accrued compensation and benefits	(29)	-	(29)
Program broadcast obligations	(16)	-	(16)
Other current liabilities	(60)	-	(60)
Income taxes payable	(12)	-	(12)
Deferred income taxes	(462)	-	(462)
Operating lease liabilities	(52)	-	(52)
Other long-term liabilities	(24)	-	(24)
Total	<u>\$ 3,443</u>	<u>\$ 48</u>	<u>\$ 3,491</u>

These amounts are based upon management’s preliminary estimate of the fair values using valuation techniques including income, cost and market approaches. In determining the preliminary fair value of the acquired assets and assumed liabilities, the fair values were determined based on, among other factors, expected future revenue and cash flows, expected future growth rates, and estimated discount rates. Because of the magnitude and complexity of the calculations involved and the inherent issues related to the integration of our operations, the valuation of the assets acquired, liabilities assumed and resulting goodwill of the 2019 Acquisitions are not yet final. However, we expect that any adjustments to these amounts reported in subsequent periods will not be material to our financial statements as a whole.

Accounts receivable are recorded at their fair value representing the amount we expect to collect. Gross contractual amounts receivable are approximately \$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 \$13 million; favorable income leases of \$76 million; and network affiliation agreements of \$48 million. These intangible assets are being amortized over their estimated useful lives of approximately 4.4 years for retransmission agreements; approximately 9.0 years for favorable income leases; and approximately 4.0 years for network affiliation agreements.

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 recorded \$834 million of goodwill related to stations acquired and retained in the Raycom Merger, and \$3 million of goodwill related to the stations acquired in the United Acquisition. A portion of the goodwill acquired, in the amount of approximately \$150 million that was deductible by Raycom will be deductible by us for income tax purposes.

The Company’s consolidated results of operations for three and nine-months ended September 30, 2019 include the results of the Raycom Merger beginning on January 2, 2019 and the United Acquisition beginning on March 1, 2019. Revenues attributable thereto and included in our consolidated statement of operations for the three and nine-months ended September 30, 2019 were \$274 million and \$819 million, respectively. Operating income attributable thereto and included in our consolidated statement of operations was \$63 million and \$112 million for the three and nine-months ended September 30, 2019, respectively.

The following table summarizes the approximate “Transaction Related Expenses” incurred in connection with the 2019 Acquisitions, during the three and nine-months ended September 30, 2019, by type and by financial statement line item (in millions):

	September 30, 2019	
	Three Months Ended	Nine Months Ended
Transaction Related Expenses by type:		
Legal, consulting and other professional fees	\$ 1	\$ 24
Incentive compensation and other severance costs	1	19
Termination of sales representation agreements	-	29
Total transaction related expenses	\$ 2	\$ 72
Transaction Related Expenses by financial statement line item:		
Operating expenses before depreciation, amortization and loss (gain) on disposal of assets, net:		
Broadcast	\$ 1	\$ 38
Corporate and administrative	1	34
Total transaction related expenses	\$ 2	\$ 72

Unaudited Pro Forma Financial Information.

The following table sets forth certain unaudited pro forma information for the nine-months ended September 30, 2019 and 2018 assuming that the 2019 Acquisitions occurred on January 1, 2018 (in millions, except per share data):

	Nine Months Ended September 30,	
	2019	2018
Revenue (less agency commissions)	\$ 1,546	\$ 1,547
Net income	\$ 142	\$ 110
Net income attributable to common stockholders	\$ 103	\$ 71
Basic net income per share	\$ 1.42	\$ 1.25
Diluted net income per share	\$ 1.42	\$ 1.24

This pro forma financial information is based on Gray’s historical results of operations and the historical results of operations of the television stations acquired, net of divestitures, included in the 2019 Acquisitions, 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 the 2019 Acquisitions on January 1, 2018 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, 2019 and 2018 reflect depreciation expense and amortization of finite-lived intangible assets related to the fair value of the assets acquired, transaction related expenses 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 fair value estimates or underlying assumptions.

Sioux Falls Acquisition

On September 25, 2019, we acquired KDLT-TV (NBC), in the Sioux Falls, South Dakota market (DMA 115), for \$32.5 million, using cash on hand (the “Sioux Falls Acquisition”). Due to the proximity of the closing date of the Sioux Falls Acquisition to the balance sheet date and the filing date of this quarterly report, we were unable to present a preliminary purchase price allocation for the acquired business. The payment of the purchase price is included in our other non-current assets at September 30, 2019. Fair value estimates of assets acquired, liabilities assumed and resulting goodwill will be based upon management’s estimate of the fair values using valuation techniques including income, cost and market approaches. In estimating the fair value of the acquired assets and liabilities assumed, the fair value estimates will be based on, among other factors, expected future revenue and cash flows, expected future growth rates, and estimated discount rates.

4. Long-term Debt

As of September 30, 2019, long-term debt primarily consisted of obligations under our 2019 Senior Credit Facility (as defined below), our 5.125% Senior Notes due 2024 (the “2024 Notes”), our 5.875% senior notes due 2026 (the “2026 Notes”) and our 7.0% senior notes due 2027 (the “2027 Notes”). As of December 31, 2018, long-term debt primarily consisted of obligations under our 2017 Senior Credit Facility (as defined below), our 2024 Notes, our 2026 Notes and our 2027 Notes as follows (in millions):

	September 30, 2019	December 31, 2018
Long-term debt including current portion:		
2017 Term Loan	\$ 595	\$ 595
2019 Term Loan	1,390	-
2024 Notes	525	525
2026 Notes	700	700
2027 Notes	750	750
Total outstanding principal	3,960	2,570
Unamortized deferred loan costs - 2017 Term Loan	-	(9)
Unamortized deferred loan costs - 2019 Term Loan	(45)	-
Unamortized deferred loan costs - 2024 Notes	(5)	(6)
Unamortized deferred loan costs - 2026 Notes	(8)	(8)
Unamortized deferred loan costs - 2027 Notes	(11)	(2)
Unamortized premium - 2026 Notes	4	4
Long-term debt, less deferred financing costs	3,895	2,549
Less current portion	(14)	-
Net carrying value	<u>\$ 3,881</u>	<u>\$ 2,549</u>
Borrowing availability under Revolving Credit Facility	\$ 200	\$ 100

In connection with the Raycom Merger, on January 2, 2019, we amended our senior credit facility (the “2017 Credit Facility” and, as amended, the “2019 Senior Credit Facility”) as follows: (1) we replaced our existing \$100 million revolving credit facility under our prior senior credit facility with a new five year revolving credit facility (the “2019 Revolving Credit Facility”), the terms of which provide for up to \$200 million in available borrowings and a maturity date of January 2, 2024, and (2) we incurred a \$1.4 billion term loan (the “2019 Term Loan”), which matures on January 2, 2026 and (3) assumed the outstanding \$556.4 million term loan facility (the “2017 Initial Term Loan”) and \$85 million incremental term loan (the “2017 Incremental Term Loan” and, together with the 2017 Initial Term Loan, the “2017 Term Loan”) which mature on February 7, 2024. Since the Raycom Merger was not completed by December 15, 2018, we incurred a ticking fee of \$0.8 million at a rate of 1.25% of the 2019 Term Loan amount, from December 16, 2018 to January 2, 2019. In addition, we assumed \$750 million of the 2027 Notes, which were issued by our special purpose, wholly-owned subsidiary on November 16, 2018. The proceeds of the 2019 Term Loan and the 2027 Notes were used to fund a portion of the cash consideration payable in the Raycom Merger.

Borrowings under the 2019 Term Loan bear interest, at our option, at either the London Interbank Offered Rate (“LIBOR”) or the Base Rate, in each case, plus an applicable margin of 2.5% for LIBOR borrowings and 1.5% for Base Rate borrowings. As of September 30, 2019, the interest rate on the balance outstanding under the 2019 Term Loan was 4.8%. The 2019 Term Loan matures on January 2, 2026.

Borrowings under the 2017 Term Loan bear interest, at our option, at either the LIBOR or the Base Rate (as defined below), in each case, plus an applicable margin. Currently, the applicable margin is 2.25% for LIBOR borrowings and 1.25% for Base Rate borrowings. The applicable margin is determined quarterly based on our leverage ratio as set forth in the 2019 Senior Credit Facility (the “Leverage Ratio”). If our Leverage Ratio is less than or equal to 5.25 to 1.00, the applicable margin is 2.25% for all LIBOR borrowings and 1.25% for all Base Rate borrowings, and if the Leverage Ratio is greater than 5.25 to 1.00, the applicable margin is 2.5% for all LIBOR borrowings and 1.5% for all Base Rate borrowings. As of September 30, 2019, the interest rate on the balance outstanding under the 2017 Term Loan was 4.6%. The 2017 Term Loan matures on February 7, 2024.

Borrowings under the 2019 Revolving Credit Facility currently bear interest, at our option, at either LIBOR plus the applicable margin or Base Rate plus the applicable margin, in each case based on a first lien leverage ratio test as set forth in the 2019 Senior Credit Facility (the “First Lien Leverage Ratio”). Base Rate is defined as the greatest of (i) the administrative agent’s prime rate, (ii) the overnight federal funds rate plus 0.50% or (iii) LIBOR plus 1.50%. We are required to pay a commitment fee on the average daily unused portion of the 2019 Revolving Credit Facility, which may range from 0.375% to 0.50% on an annual basis, based on the First Lien Leverage Ratio. The 2019 Revolving Credit Facility matures on January 2, 2024.

We incurred \$42.5 million of transaction fees and expenses related to the 2019 Senior Credit Facility. At September 30, 2019 these were recorded as a reduction of the balance of the outstanding debt and are amortized over the life of the 2019 Senior Credit Facility. The amortization of these fees is included in our interest expense.

As of September 30, 2019, the aggregate minimum principal maturities of our long term debt for the remainder of 2019 and the succeeding 5 years were as follows (in millions):

Year	Minimum Principal Maturities				
	2019 Senior Credit Facility	2024 Notes	2026 Notes	2027 Notes	Total
Remainder of 2019	\$ 4	\$ -	\$ -	\$ -	\$ 4
2020	14	-	-	-	14
2021	14	-	-	-	14
2022	14	-	-	-	14
2023	14	-	-	-	14
2024	609	525	-	-	1,134
Thereafter	1,316	-	700	750	2,766
Total	<u>\$ 1,985</u>	<u>\$ 525</u>	<u>\$ 700</u>	<u>\$ 750</u>	<u>\$ 3,960</u>

Our obligations under the 2019 Senior Credit Facility are secured by substantially all of our consolidated assets, excluding real estate. In addition, substantially 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 2019 Senior Credit Facility. Gray Television, Inc. is a holding company, and has no material independent assets or operations. For all applicable periods, the 2024 Notes, 2026 Notes and 2027 Notes have been fully and unconditionally guaranteed, on a joint and several, senior unsecured basis, by substantially all of Gray Television, Inc.’s subsidiaries. Any subsidiaries of Gray Television, Inc. that do not guarantee the 2024 Notes, 2026 Notes and 2027 Notes are minor. As of September 30, 2019, 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 2019 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 the First Lien Leverage Ratio while any amount is outstanding under the revolving credit facility, as well as other customary covenants for credit facilities of this type. The 2024 Notes, the 2026 Notes and the 2027 Notes include covenants with which we must comply which are typical for borrowing transactions of their nature. As of September 30, 2019 and December 31, 2018, we were in compliance with all required covenants under all our debt obligations.

For all our interest bearing obligations, we made interest payments of approximately \$34 million and \$74 million during the nine-months ended September 30, 2019 and 2018, respectively. We did not capitalize any interest payments during the nine-months ended September 30, 2019 and 2018.

5. 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 or methodologies could 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 \$3.9 billion and \$2.5 billion, respectively, and the fair value was \$4.1 billion and \$2.4 billion, respectively, as of September 30, 2019 and December 31, 2018. Fair value of our long-term debt is based on observable estimates provided by third-party financial professionals as of September 30, 2019 and December 31, 2018 and as such is classified within Level 2 of the fair value hierarchy.

6. Stockholders' Equity

We were authorized to issue 245 million shares in total of all classes of stock consisting of 25 million shares of Class A common stock, 200 million shares of common stock and 20 million shares of “blank check” preferred stock for which our Board of Directors has the authority to determine the rights, powers, limitations and restrictions. The rights of our Class A common stock and our common stock are identical, except that our Class A common stock has 10 votes per share and our common stock has one vote per share. Our common stock and Class A common stock are entitled to receive cash dividends if declared, on an equal per-share basis. For the nine-months ended September 30, 2019 and 2018, we did not declare or pay any Class A common stock or common stock dividends.

On January 2, 2019, we issued 11.5 million shares of our common stock at a price of \$4.74 per share, the closing price for our common stock on the last trading day preceding the transaction, to certain former shareholders of Raycom as part of the total consideration paid for the Raycom Merger. We incurred transaction fees and expenses of approximately \$0.1 million related to the issuance of these shares that were recorded as a reduction of the balance outstanding of our common stock in our balance sheets.

In each of March and November 2004, the Board of Directors authorized the Company to repurchase up to 2 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 million shares (the "2004-2006 Repurchase Authorization"). As of September 30, 2019, 279,200 shares remained 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 million of our outstanding common stock prior to December 31, 2019 (the "2016 Repurchase Authorization"). The 2016 Repurchase Authorization prohibits the Company from purchasing shares directly from the Company's officers, directors, or the Gray Television, Inc. Capital Accumulation Plan (the "401(k) plan"). During the nine-months ended September 30, 2019, under the 2016 Repurchase Authorization, we purchased 651,593 shares of our common stock at an average purchase price, including related brokerage commissions, of \$16.37 per share, for a total cost of \$11 million. As of September 30, 2019, \$39 million remained available to purchase shares under the 2016 Repurchase Authorization.

Under our various employee benefit plans, we may, at our discretion, issue authorized and unissued shares, or previously issued shares held in treasury, of our common stock or Class A common stock. During the nine-months ended September 30, 2019, we issued 196,509 shares of our common stock, valued at \$4 million, to the qualifying participants in our 401(k) plan for our discretionary profit sharing contribution for the year ended December 31, 2018. As of September 30, 2019, we had reserved 1,503,254 shares and 6,163,624 shares of our Class A common stock and common stock, respectively, for future issuance under various employee benefit plans.

7. Preferred Stock

In connection with the Raycom Merger, on January 2, 2019, we issued 650,000 shares of our Series A Perpetual Preferred Stock, with a stated face value and liquidation value of \$1,000 per share (the "Series A Preferred Stock"). Holders of shares of the Series A Preferred Stock are entitled to receive mandatory and cumulative dividends paid quarterly in cash or, at the Company's option, paid quarterly in kind by issuance of additional shares of Series A Preferred Stock. The per-share amount of such quarterly mandatory and cumulative dividends will be calculated by multiplying the face value by 8% per annum if the dividends are to be paid in cash or 8.5% per annum if such dividends are to be paid in additional shares of Series A Preferred Stock ("PIK Election Dividends"). If the Company elects to pay any portion of accrued dividends with PIK Election Dividends, it will be prohibited from repurchasing, redeeming or paying dividends on any stock that is junior to the Series A Preferred Stock, through the end of that quarter and the subsequent two quarters, subject to certain exceptions.

With respect to the payment of dividends, the Series A Preferred Stock will rank senior to all classes and series of our common stock and all other equity securities designated as ranking junior to the Series A Preferred Stock, and no new issuances of common or preferred stock will rank on a parity with, nor senior to, the Series A Preferred Stock.

All or any portion of the outstanding Series A Preferred Stock may be redeemed at the Company's option at any time, upon written notice to the holders of Series A Preferred Stock at least 30 and not more than 60 days prior to the date of such optional redemption. The per-share redemption price for Series A Preferred Stock will be equal to the sum of the liquidation value and the per-share amount of any unpaid dividends for the current quarterly dividend period, up to and including the date of redemption. Holders of shares of Series A Preferred Stock redeemed will be paid in cash.

The Series A Preferred Stock is also subject to mandatory redemption upon the occurrence of certain change of control transactions or upon the sale or other disposition of all or substantially all of our assets. The holders of Series A Preferred Stock do not have any right to exchange or convert the shares into any other securities.

In general, the holders of the Series A Preferred Stock do not have any voting rights except as set forth in the terms of the Series A Preferred Stock or as otherwise required by law, in which case, each share of Series A Preferred Stock will be entitled to one vote.

The approval of the holders of the Series A Preferred Stock, voting separately as a class, is required in order to authorize, create, issue new shares of Series A Perpetual Preferred stock (other than to pay dividends) or alter the rights of any other shares that are or would be equal to or senior to the Series A Preferred Stock, or to amend, alter or repeal the Company's Restated Articles of Incorporation as amended from time to time if such amendment, alteration or repeal adversely affects the powers, preferences or special rights of the Series A Preferred Stock.

The Series A Preferred Stock does not have preemptive rights as to any of our other securities, or any warrants, rights, or options to acquire any of our securities.

In the event that the Company voluntarily or involuntarily liquidates, dissolves or winds up its affairs, holders of Series A Preferred Stock will be entitled to receive for each share of Series A Preferred Stock, out of the Company's assets or proceeds thereof available for distribution to shareholders, subject to the rights of any creditors, payment in full in an amount equal to the liquidation value and the per-share amount of any unpaid dividends for the current quarterly dividend period. Holders of Series A Preferred Stock would be entitled to receive this amount before any distribution of assets or proceeds to holders of our common stock and any other stock whose rights are junior to the Series A Preferred Stock. If in any distribution described above, our assets are not sufficient to pay in full the amounts payable with respect to the outstanding shares of Series A Preferred Stock or any stock whose rights are equal to the Series A Preferred Stock, holders of the Series A Preferred Stock would share ratably in any such distribution in proportion to the full respective distributions to which they are entitled. Shareholders are not subject to further assessments on their shares of the New Preferred Stock.

8. Retirement Plans

The components of our net periodic pension benefit are included in miscellaneous income in our income statement. During the nine-months ended September 30, 2019, the amount recorded as a benefit was not material. During the nine-months ended September 30, 2019, we contributed \$3 million to this plan.

During the three and nine-month periods ended September 30, 2019, we contributed \$2 million and \$9 million, respectively, in matching contributions to our 401(k) Plan. During the remainder of 2019, we estimate that our contributions will be approximately \$3 million to this plan, excluding discretionary profit-sharing contributions.

9. Stock-based Compensation

We recognize compensation expense for stock-based payment awards made to our employees, consultants and directors. Our current stock-based compensation plans include our 2017 Equity and Incentive Compensation Plan (the "2017 EICP"); our 2007 Long-Term Incentive Plan, as amended (the "2007 Incentive Plan"); and our Directors' Restricted Stock Plan. The following table provides our stock-based compensation expense and related income tax benefit for the three and nine-month periods ended September 30, 2019 and 2018 (in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Stock-based compensation expense, gross	\$ 5	\$ 2	\$ 10	\$ 6
Forfeitures	-	-	-	(1)
Income tax benefit at our statutory rate associated with share-based compensation	(1)	(1)	(3)	(1)
Stock-based compensation expense, net	<u>\$ 4</u>	<u>\$ 1</u>	<u>\$ 7</u>	<u>\$ 4</u>

All shares of class A common stock and common stock underlying outstanding options, restricted stock units and performance awards are counted as issued at target levels under the 2017 EICP, the 2007 Incentive Plan and the Directors' Restricted Stock Plan for purposes of determining the number of shares available for future issuance.

During the nine-months ended September 30, 2019, we granted under the 2017 EICP:

- 99,905 shares of restricted class A common stock with a grant date fair value per share of \$5.36 to an employee, of which 33,302 shares will vest on each of January 31, 2020 and 2021 and 33,301 shares will vest on January 31, 2022;

- 99,905 shares of restricted class A common stock with a grant date fair value per share of \$5.36 to an employee, subject to the achievement of certain performance measures, which will vest on January 31, 2022;
- 340,993 shares of restricted common stock with a grant date fair value per share of \$4.85 to certain employees that will vest on January 2, 2021;
- 277,048 shares of restricted common stock with a grant date fair value of \$6.55 to certain employees, of which 92,349 shares will vest on each of January 31, 2020 and 2021, and 92,350 shares will vest on January 31, 2022;
- 48,338 shares of restricted common stock with a grant date fair value per share of \$6.55 to an employee, subject to the achievement of certain performance measures, which will vest on January 31, 2022; and
- 11,223 shares of restricted common stock with a grant date fair value per share of \$7.83 to an employee that will vest on February 15, 2020.
- 41,181 shares of restricted common stock with a grant date fair value of \$2.10 to our non-employee directors that will vest on April 30, 2020.
- Restricted stock units representing 398,000 shares of our common stock with a grant date fair value of \$8.21 that will vest on June 1, 2020.

During the nine-months ended September 30, 2018, we granted under the 2017 EICP:

- 110,040 shares of restricted class A common stock with a grant date fair value per share of \$2.65 to an employee, of which 36,680 shares vested on February 28, 2019, and 36,680 shares will vest on each of February 28, 2020 and 2021;
- 110,040 shares of restricted class A common stock with a grant date fair value per share of \$2.65 to an employee, subject to the achievement of certain performance measures, which will vest on February 28, 2021;
- 318,196 shares of restricted common stock with a grant date fair value per share of \$5.25 to certain employees; net of forfeitures, 131,106 shares vested on February 28, 2019; 69,651 shares will vest on February 28, 2020; and 69,652 shares will vest on February 28, 2021; and
- 73,640 shares of restricted common stock to our non-employee directors, all of which will vest on May 31, 2019.

A summary of restricted class A common stock, common stock and restricted stock units activity for the nine-month periods ended September 30, 2019 and 2018 is as follows:

	Nine Months Ended			
	September 30, 2019		September 30, 2018	
	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	407,786	\$ 11.82	462,632	\$ 10.63
Granted ⁽¹⁾	199,810	\$ 15.36	220,080	\$ 12.65
Vested	(158,312)	\$ 11.38	(274,926)	\$ 10.48
Forfeited	-	\$ -	-	\$ -
Outstanding - end of period	<u>449,284</u>	<u>\$ 13.55</u>	<u>407,786</u>	<u>\$ 11.82</u>
Restricted stock - common:				
Outstanding - beginning of period	578,894	\$ 13.14	503,685	\$ 11.14
Granted	718,783	\$ 16.08	391,836	\$ 14.63
Vested	-	\$ -	(225,570)	\$ 11.21
Forfeited	(352,810)	\$ 12.98	(91,057)	\$ 13.27
Outstanding - end of period	<u>944,867</u>	<u>\$ 15.44</u>	<u>578,894</u>	<u>\$ 13.14</u>
Restricted stock units - common stock:				
Outstanding - beginning of period	-	\$ -	209,500	\$ 15.70
Granted	398,000	\$ 18.21	-	\$ -
Vested	-	\$ -	(209,500)	\$ 15.70
Forfeited	-	\$ -	-	\$ -
Outstanding - end of period	<u>398,000</u>	<u>\$ 18.21</u>	<u>-</u>	<u>\$ -</u>

(1) For awards subject to future performance conditions, amounts assume target performance.

At September 30, 2019 and December 31, 2018, we had outstanding options to acquire 274,746 shares of our common stock, all of which were vested and exercisable. The exercise price of all outstanding stock options is \$1.99 per share. As of September 30, 2019 and December 31, 2018, we did not have any options outstanding for our class A common stock. The aggregate intrinsic value of our outstanding stock options was approximately \$4 million based on the closing market price of our common stock on September 30, 2019.

10. Leases

Operating Leases

We lease various assets with non-cancellable lease terms that range between one and ninety-nine years. Many of these leases have optional renewal periods ranging between one and twenty years. We define the lease term as the original lease base period plus optional renewal periods that we reasonably expect to be exercised. We do not include renewal periods exercisable more than ten years from the commencement date in the lease term as we cannot reasonably expect to exercise an option that far into the future. Some of our leases have free rent periods, tenant allowances and/or fixed or variable rent escalators. We record operating lease expense on a straight-line basis over the lease term. Operating lease expense is included in operating expenses in our statements of operations.

We lease land, buildings, transmission towers, right of way easements, and equipment through operating leases. We generally lease land for the purpose of erecting transmission towers for our broadcast operations. Our building leases consist of office space and broadcast studios. For transmission towers we do not own, we lease space for our transmission equipment on third-party towers. We lease right of ways for various purposes including ingress and egress for tower locations and guyed wire space. Our equipment leases consist of office, transmission and production equipment.

We allocate consideration paid in the contract to lease and non-lease components based upon the contract or associated invoice received if applicable. Lease components include base rent, fixed rate escalators and in-substance fixed payments associated with the leased asset. Non-lease components include common area maintenance and operating expenses associated with the leased asset. We have not elected the practical expedient to combine lease and non-lease components. As such, we only include the lease component in the calculation of right-of-use asset and lease liability. The incremental borrowing rate we use for the calculation is the rate of interest that we would have to pay to borrow on a collateralized basis over a similar term based upon our borrower risk profile.

Variable lease payments are not significant and are included in operating lease expense as a component of operating expense in our statement of operations. Variable lease payments are generally associated with usage-based leases and variable payment escalators such as consumer price index increases (CPI) incurred after the date of the adoption of ASC 842. Some of our land leases require us to pay a percentage of the revenue earned from leasing space on the towers we erect on the leased land. We included the payment level of CPI and percentage rent amounts at the time of the adoption of ASC 842 in the base rent for calculating the right-of-use asset and lease liability. CPI adjustments and percentage rent amounts that differ from the amount included in ASC 842 calculation are included in variable lease payments.

We recognize leases with an initial term of 12 months or less as short-term leases. Lease payments associated with short-term leases are expensed as incurred in our operating lease expense and are not included in our calculation of right-of-use assets or lease liabilities. Short-term leases generally consist of rentals of production or broadcast equipment for short periods of time.

Our operating lease costs, including variable lease costs, for the three and nine-month periods ended September 30, 2019 were \$2 million and \$9 million, respectively. Our short-term lease costs for the three and nine-month period ended September 30, 2019 were \$1 million and \$2 million, respectively. Cash flows from operations included cash paid for operating leases of \$11 million in the nine-months ended September 30, 2019. Additional right of use assets recognized in the nine-months ended September 30, 2019 were not material. As of September 30, 2019, the weighted average remaining term of our operating leases was 9.0 years. The weighted average discount rate used to calculate the values associated with our operating leases was 6.7%.

The maturities of operating lease liabilities as of September 30, 2019, for the remainder of 2019 and the succeeding years were as follows (in millions):

<u>Year ending December 31,</u>	<u>Operating Leases</u>
2019	\$ 2
2020	10
2021	9
2022	9
2023	7
Thereafter	36
Total lease payments	73
Less: Imputed interest	(19)
Present value of lease liabilities	<u>\$ 54</u>

We had no material capital leases as of December 31, 2018. Our aggregate minimum lease payments under operating leases as of December 31, 2018 were as follows (in millions):

Year ending December 31,	Operating Leases
2019	\$ 3
2020	3
2021	3
2022	3
2023	2
Thereafter	12
Total	<u>\$ 26</u>

Our aggregate lease payments under operating leases as of December 31, 2018 are based on ASC 840 that was superseded upon the adoption of ASC 842 on January 1, 2019. Our maturities of operating lease liabilities as of September 30, 2019 was significantly higher than our aggregate lease payments under operating leases as of December 31, 2018 due primarily to our completion of the Raycom Merger on January 2, 2019.

Financing Leases

We lease certain vehicles through a financing master lease. The weighted average remaining lease term of the vehicles under this lease is 2.2 years. The interest rate for each vehicle leased is 4.0%. We recorded a right-of-use asset and lease liability of \$2 million, respectively, upon the adoption of ASC 842 related to these financing leases. The right-of-use asset is recorded in other noncurrent assets in our balance sheets. The current portion of the lease liability is recorded in the balance of other accrued expenses in current liabilities and the long-term portion is recorded in the balance of other liabilities in non-current liabilities in our balance sheets.

Amortization expense associated with this lease is included in amortization expense as a component of operating expense, and interest expense is included in interest expense in our statement of operations. Amortization and interest expenses were not material in the three and nine-months ended September 30, 2019. Cash paid for financing leases is included in our cash flows from financing activities and cash paid for interest on financing leases is included in our cash flow from operating activities.

For the three and nine-months ended September 30, 2019, cash paid for amounts included in measurement of liabilities for operating cash flows from finance leases and financing cash flows from finance leases as well as ROU assets obtained in exchange for lease liabilities were not material.

11. Commitments and Contingencies

Legal Proceedings and Claims

We are and expect to continue to be subject to legal actions, proceedings and claims that arise in the normal course of our business. In the opinion of management, the amount of ultimate liability, if any, with respect to these actions, proceedings and claims will not materially affect our financial position, results of operations or cash flows, although legal proceedings are subject to inherent uncertainties, and unfavorable rulings or events could have a material adverse impact on our financial position, results of operations or cash flows.

12. Goodwill and Intangible Assets

During the nine-months ended September 30, 2019, we completed the 2019 Acquisitions that included the acquisition of goodwill, broadcast licenses and finite-lived intangible assets. See Note 3 “Acquisitions and Divestitures” for more information regarding these transactions. A summary of changes in our goodwill and other intangible assets, on a net basis, for the nine-months ended September 30, 2019 is as follows (in millions):

	Net Balance at December 31, 2018	Acquisitions And Adjustments, Net	Impairments	Amortization	Net Balance at September 30, 2019
Goodwill	\$ 612	\$ 837	\$ -	\$ -	\$ 1,449
Broadcast licenses	1,530	2,028	-	-	3,558
Definite lived intangible assets	53	502	-	(86)	469
Total intangible assets net of accumulated amortization	<u>\$ 2,195</u>	<u>\$ 3,367</u>	<u>\$ -</u>	<u>\$ (86)</u>	<u>\$ 5,476</u>

A summary of the changes in our goodwill, on a gross basis, for the nine-months ended September 30, 2019, is as follows (in millions):

	As of December 31, 2018	Net Additions	Impairments	As of September 30, 2019
Goodwill, gross	\$ 711	\$ 837	\$ -	\$ 1,548
Accumulated goodwill impairment	(99)	-	-	(99)
Goodwill, net	<u>\$ 612</u>	<u>\$ 837</u>	<u>\$ -</u>	<u>\$ 1,449</u>

As of September 30, 2019 and December 31, 2018, our intangible assets and related accumulated amortization consisted of the following (in millions):

	As of September 30, 2019			As of December 31, 2018		
	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
Intangible assets not currently subject to amortization:						
Broadcast licenses	\$ 3,612	\$ (54)	\$ 3,558	\$ 1,583	\$ (53)	\$ 1,530
Goodwill	1,449	-	1,449	612	-	612
	<u>\$ 5,061</u>	<u>\$ (54)</u>	<u>\$ 5,007</u>	<u>\$ 2,195</u>	<u>\$ (53)</u>	<u>\$ 2,142</u>
Intangible assets subject to amortization:						
Network affiliation agreements	\$ 54	\$ (14)	\$ 40	\$ 6	\$ (6)	\$ -
Other definite lived intangible assets	596	(167)	429	143	(90)	53
	<u>\$ 650</u>	<u>\$ (181)</u>	<u>\$ 469</u>	<u>\$ 149</u>	<u>\$ (96)</u>	<u>\$ 53</u>
Total intangibles	<u>\$ 5,711</u>	<u>\$ (235)</u>	<u>\$ 5,476</u>	<u>\$ 2,344</u>	<u>\$ (149)</u>	<u>\$ 2,195</u>

Amortization expense for the nine-month periods ended September 30, 2019 and 2018 was \$86 million and \$16 million, respectively. Based on the intangible assets subject to amortization as of September 30, 2019, we expect that amortization expense for the remainder of 2019 would be approximately \$28 million, and, for the succeeding five years, amortization expense will be approximately as follows: 2020, \$99 million; 2021, \$95 million; 2022, \$91 million; 2023, \$85 million; and 2024, \$22 million. If and when acquisitions and dispositions occur in the future, actual amounts may vary materially 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-months ended September 30, 2019 or 2018.

13. Income Taxes

For the three and nine-month periods ended September 30, 2019 and 2018, our income tax expense and effective income tax rates were as follows (dollars in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Income tax expense	\$ 23	\$ 22	\$ 44	\$ 43
Effective income tax rate	28%	27%	34%	26%

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 21% to our effective income tax rate. For the nine-month period ended September 30, 2019, these estimates increased or decreased our statutory Federal income tax rate to our effective income tax rate of 34% as follows: state income taxes added 5%, permanent differences between our U.S. GAAP income and taxable income added 2% and divestiture of component 2 goodwill resulted in an increase of 6%. For the nine-month period ended September 30, 2018, these estimates increased or decreased our statutory Federal income tax rate to our effective income tax rate of 26% as follows: state income taxes added 5% and permanent differences between our U.S. GAAP income and taxable income added 1%.

We made income tax payments (net of refunds) of approximately \$12 million and \$27 million during the nine-months ended September 30, 2019 and 2018, respectively.

We have approximately \$776 million of federal operating loss carryforwards, that expire during the years 2021 through 2037. We expect to have federal taxable income in the carryforward periods, therefore we believe that it is more likely than not that these federal operating loss carryforwards will be fully utilized. Additionally, we have an aggregate of approximately \$837 million of various state operating loss carryforwards, of which we expect approximately \$564 million will be utilized.

14. Segment information

The Company operates in two business segments: broadcasting and production companies. The broadcasting segment operates television stations located across 93 local markets in the United States. The production companies segment includes the production of television and event content. Costs identified as other are primarily corporate and administrative expenses. The following tables present certain financial information concerning the Company's operating segments (in millions):

As of and for the Nine months ended September 30, 2019:	Broadcast	Production Companies	Other	Consolidated
Revenue (less agency commissions)	\$ 1,481	\$ 62	\$ -	\$ 1,543
Operating expenses before depreciation, amortization and (gain) loss on disposal of assets, net:	986	57	83	1,126
Depreciation and amortization	135	9	2	146
(Gain) loss on disposal of assets, net	(27)	-	-	(27)
Operating expenses	1,094	66	85	1,245
Operating income	\$ 387	\$ (4)	\$ (85)	\$ 298
Interest expense	\$ -	\$ -	\$ 173	\$ 173
Capital expenditures (excluding business combinations)	\$ 69	\$ -	\$ 4	\$ 73
Goodwill	\$ 1,409	\$ 40	\$ -	\$ 1,449
Total Assets	\$ 6,906	\$ 142	\$ 56	\$ 7,104

For the Nine months ended September 30, 2018:

Revenue (less agency commissions)	\$ 756	\$ -	\$ -	\$ 756
Operating expenses before depreciation, amortization and (gain) loss on disposal of assets, net:	437	-	30	467
Depreciation and amortization	56	-	1	57
(Gain) loss on disposal of assets, net	(6)	-	-	(6)
Operating expenses	487	-	31	518
Operating income	\$ 269	\$ -	\$ (31)	\$ 238
Interest expense	\$ -	\$ -	\$ 74	\$ 74
Capital expenditures (excluding business combinations)	\$ 35	\$ -	\$ -	\$ 35

As of December 31, 2018:

Goodwill	\$ 612	\$ -	\$ -	\$ 612
Total Assets	\$ 3,242	\$ -	\$ 971	\$ 4,213

15. Subsequent Events

Acquisition and Divestiture

On October 1, 2019, we acquired the assets of WVIR-TV (NBC) in the Charlottesville, Virginia market (DMA183) from Waterman Broadcasting Corporation for \$12 million using cash on hand (the "Charlottesville Acquisition"). Also, on October 1, 2019, in order to meet regulatory requirements, we divested our legacy stations in that market, WCAV-TV (CBS/FOX) and WVAW-TV (ABC). We expect that the divestitures will result in a gain of approximately \$19 million that will be reported in the fourth quarter of 2019.

Due to the proximity of the closing dates of the Sioux Falls Acquisition and Charlottesville Acquisition to the the filing date of this quarterly report, we are unable to present a preliminary purchase price allocation for the acquired businesses. Fair value estimates of assets acquired, liabilities assumed and resulting goodwill will be based upon management's estimate of the fair values using valuation techniques including income, cost and market approaches. In estimating the fair value of the acquired assets and liabilities assumed, the fair value estimates will be based on, among other factors, expected future revenue and cash flows, expected future growth rates, and estimated discount rates.

Pre-payment of Long-term Debt

On November 1, 2019, we made a voluntary pre-payment of \$100 million of our 2019 Term Loan, using cash on hand. This pre-payment reduced the lenders' total loan commitment for the 2019 Term Loan by an equal amount and relieved our obligation to make future quarterly principal payments until the maturity of the 2019 Term Loan.

Stock Repurchase Authorization

On November 6, 2019, the Board of Directors authorized the Company to repurchase up to \$150 million of outstanding common stock (GTN) and/or Class A common stock (GTN.A) through December 31, 2022. This new authorization supersedes the 2004-2006 Repurchase Authorization and the 2016 Repurchase Authorization. The Company has not yet repurchased any shares under this new plan.

Share repurchases would be implemented through purchases made from time to time in either the open market or private transactions. 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, and the repurchase authorizations may be modified, suspended or terminated at any time without prior notice.

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

Executive Overview

Introduction

The following discussion and 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 notes thereto included elsewhere herein, as well as with our audited consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2018 (the "2018 Form 10-K") filed with the SEC.

Business Overview

We are a television broadcast company headquartered in Atlanta, Georgia, that is the largest owner of top-rated local television stations and digital assets in the United States. Currently, we own television stations and locally focused digital platforms in 93 television markets broadcasting over 400 separate programming streams, including approximately 150 affiliates of the Big Four TV networks. Our station portfolio reaches approximately 24% of total United States television households. We also own video program production, marketing, and digital businesses including Raycom Sports, Tupelo-Raycom, and RTM Studios, the producer of PowerNation programs and content which we refer to collectively as the "production companies."

Between December 2017 and November 2018, our television stations achieved the #1 ranking in overall audience in 69 of our 93 markets. In addition, our stations achieved the #1 or #2 ranking in overall audience in 87 of our 93 markets among all local television stations.

Acquisitions

On January 2, 2019, we completed the Raycom Merger. Net of station divestitures due to market overlaps, this transaction added television stations in 34 new markets. In addition to the high-quality television stations acquired as part of the Raycom Merger, we also acquired businesses that provide sports marketing and production services that we believe has resulted in us becoming a more diversified media company. The Raycom Merger completed our transformation from a small, regional broadcaster to a leading media company with nationwide scale based on high-quality stations with exceptional talent in attractive markets. By combining these two companies, we now own and operate television stations and leading digital properties in television markets from Alaska and Hawaii to Maine and Florida.

Upon consummation of the Raycom Merger, all outstanding shares of Raycom capital stock, and options and warrants to purchase Raycom capital stock, were cancelled, and all outstanding indebtedness was repaid, in exchange for aggregate consideration consisting of: (i) 11.5 million shares of the Company's common stock then valued at \$170 million, for which we filed a registration statement in January 2019, covering the resale of the shares issued; (ii) \$2.84 billion in cash; and (iii) 650,000 shares of Series A Preferred Stock of the Company, with a stated face value of \$1,000 per share or \$650 million, issued to holders of warrants to purchase shares of Raycom. The Series A Preferred Stock accrues dividends at 8% per annum payable in cash or 8.5% per annum payable in the form of additional Series A Preferred Stock, at the election of Gray. The holders of Series A Preferred Stock are not entitled to vote on any matter submitted to the stockholders of the Company for a vote, except as required by Georgia law. Upon a liquidation of the Company, holders of the Series A Preferred Stock will be entitled to receive a liquidation preference equal to \$1,000 per share plus all accrued and unpaid dividends.

On May 1, 2019, we acquired the assets of WWNY-TV (CBS) and WNYF-CD (FOX) in Watertown, New York (DMA 178) and KEYC-TV (CBS/FOX) in Mankato, Minnesota (DMA 199) from United Communications Corporation (the "United Acquisition" and, together with the Raycom Merger, the "2019 Acquisitions") for an adjusted purchase price of \$48 million, excluding transaction related expenses. We began operating those stations on March 1, 2019 under a local programming and marketing agreement and increased the total number of our markets to 93.

The 2019 Acquisitions have materially affected our operations, liquidity and capital expenditures. In addition to the effects on our balance sheet from the financing transactions described below, our results of operations and cash flows have increased substantially. We also expect that the 2019 Acquisitions will create opportunities to reduce or eliminate redundancies in our combined operations, and that these synergies will be implemented in phases over several years. Please see Note 3 "Acquisitions and Divestitures" and Note 4 "Long-term Debt" of our condensed consolidated financial statements included elsewhere herein for additional information on the Raycom Merger including on any financing transaction completed in connection therewith.

Revenues, Operations, Cyclicity and Seasonality

During the nine-months ending September 30, 2019, our operating revenues are derived primarily from broadcast and internet advertising and retransmission consent fees and, to a lesser extent, from other sources such as production of sporting events and related television content, tower rentals and management fees.

Broadcast advertising is sold for placement either preceding or following a television station's network programming and within local and syndicated programming. Broadcast advertising is sold in time increments and is priced primarily on the basis of a program's popularity among the specific audience an advertiser desires to reach. In addition, broadcast advertising rates are affected by the number of advertisers competing for the available time, the size and demographic makeup of the market served by the station and the availability of alternative advertising media in the market area. Broadcast advertising rates are generally the highest during the most desirable viewing hours, with corresponding reductions during other hours. The ratings of a local station affiliated with a major network can be affected by ratings of network programming. Most advertising contracts are short-term, and generally run only for a few weeks.

We also sell internet advertising on our stations' websites. These advertisements may be sold as banner advertisements, pre-roll advertisements or video and other types of advertisements or sponsorships.

Our broadcast and internet advertising revenues are affected by several factors that we consider to be seasonal in nature. These factors include:

- Spending by political candidates, political parties and special interest groups increases during the even-numbered “on-year” of the two-year election cycle. This political spending typically is heaviest during the fourth quarter of such years;
- Broadcast advertising revenue is generally highest in the second and fourth quarters each year. This seasonality results partly from increases in advertising in the spring and in the period leading up to and including the holiday season;
- Local and national advertising revenue on our NBC-affiliated stations increases in even numbered years as a result of broadcasts of the Olympic Games; and
- Because our stations and markets are not evenly divided among the Big 4 broadcast networks, our local and national advertising revenue can fluctuate between years related to which network broadcasts the Super Bowl.

Automotive advertisers have traditionally accounted for a significant portion of our revenue. For the nine-months ended September 30, 2019 and 2018, we derived approximately 24% and 21%, respectively, of our total broadcast advertising revenue from customers in the automotive industry. Strong demand for our advertising inventory from political advertisers can require significant use of available inventory, which in turn can lower our advertising revenue from our non-political advertising revenue categories in the even numbered “on-year” of the two-year election cycle. These temporary declines are expected to reverse themselves in the following “off-year” of the two-year election cycle.

While our total revenues have increased in recent years as a result of our acquisitions, they have also experienced a gradual improvement as a result of improvements in general economic conditions. However, revenue remains under pressure from the internet as a competitor for advertising spending. We continue to enhance and market our internet websites in an effort to generate additional revenue. Our aggregate internet revenue is derived from both advertising and sponsorship opportunities directly on our websites.

Our primary broadcasting operating expenses are employee compensation, related benefits and programming costs. In addition, the broadcasting operations incur overhead expenses, such as maintenance, supplies, insurance, rent and utilities. A large portion of the operating expenses of our broadcasting operations is fixed. We continue to monitor our operating expenses and seek opportunities to reduce them where possible.

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 millions):

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2019		2018		2019		2018	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total
Revenue:								
Local (including internet/digital/mobile)	\$ 218	42.2%	\$ 106	38.0%	\$ 655	42.4%	\$ 325	43.0%
National	56	10.8%	29	10.4%	162	10.5%	84	11.1%
Political	22	4.3%	48	17.2%	30	1.9%	72	9.5%
Retransmission consent	196	37.9%	92	33.0%	601	39.0%	262	34.7%
Production companies	16	3.1%	-	0.0%	62	4.0%	-	0.0%
Other	9	1.7%	4	1.4%	33	2.2%	13	1.7%
Total	<u>\$ 517</u>	<u>100.0%</u>	<u>\$ 279</u>	<u>100.0%</u>	<u>\$ 1,543</u>	<u>100.0%</u>	<u>\$ 756</u>	<u>100.0%</u>

Results of Operations

Three-Months Ended September 30, 2019 (“the 2019 three-month period”) Compared to Three-Months Ended September 30, 2018 (“the 2018 three-month period”)

Revenue. Total revenue increased \$238 million, or 85%, to \$517 million in the 2019 three-month period from the 2018 three-month period. The 2019 Acquisitions accounted for approximately \$274 million of the increase in our total revenue in the 2019 three-month period compared to the 2018 three-month period. Excluding the 2019 Acquisitions, total revenue decreased by \$35 million primarily due to a decrease of \$40 million in political advertising revenue as a result of 2019 being the “off-year” of the two-year election cycle, partially offset by an increase in retransmission consent revenue. Excluding the 2019 Acquisitions, retransmission consent revenue increased \$7 million due to increases in rates.

Broadcast Expenses. Broadcast expenses (before depreciation, amortization and gain or loss on disposal of assets) increased \$171 million, or 118%, to \$316 million in the 2019 three-month period from the 2018 three-month period. The 2019 Acquisitions accounted for \$165 million of the increase in these expenses in the 2019 three-month period compared to the 2018 three-month period. The remaining difference represented an increase in retransmission expense, consistent with the increased retransmission consent revenue. Non-cash stock based compensation included in broadcast expenses was \$2 million in the 2019 three-month period, but was not significant in the 2018 three-month period.

Production company expenses. Production company operating expenses (before depreciation, amortization and gain or loss on disposal of assets), related to the production companies acquired in the Raycom Merger, were \$13 million in the 2019 three-month period. Approximately half of these operating expenses were for personnel costs and half for operating costs at sporting events.

Corporate and Administrative Expenses. Corporate and administrative expenses (before depreciation, amortization and gain or loss on disposal of assets) increased by \$3 million, or 27%, to \$14 million. Non-compensation expense decreased \$1 million primarily as a result of decreases in professional fees related

to acquisition activities. Professional fees related to our acquisition activities were \$1 million in the 2019 three-month period. Compensation expense increased \$4 million primarily as a result of increased base and incentive compensation costs. We recorded corporate non-cash stock-based amortization expense of \$2 million and \$1 million in the 2019 and 2018 three-month periods, respectively.

Depreciation. Depreciation of property and equipment totaled \$20 million and \$13 million in the 2019 and the 2018 three-month periods, respectively. Depreciation increased primarily due to the addition of depreciable assets acquired as a part of the 2019 Acquisitions.

Amortization. Amortization of intangible assets totaled \$29 million and \$5 million in the 2019 and the 2018 three-month periods, respectively. Amortization increased primarily due to the definite-lived intangible assets acquired as a part of the 2019 Acquisitions.

Interest Expense. Interest expense increased \$32 million, or 128%, to \$57 million for the 2019 three-month period compared to the 2018 three-month period. This increase was attributable to borrowings to finance the Raycom Merger, including, \$1.4 billion under our 2019 Senior Credit Facility and \$750 million of our 2027 Notes. The average interest rate on our total outstanding debt balance was 5.4% and 5.2% during the 2019 and 2018 three-month periods, respectively. Our average outstanding debt balance was \$4.0 billion and \$1.8 billion during the 2019 and 2018 three-month periods, respectively.

Income Tax Expense. We recognized income tax expense of \$23 million and \$22 million in the 2019 and 2018 three-month periods, respectively. Our effective income tax rates were 28% and 27% in the 2019 and 2018 three-month periods, respectively. We estimate our differences between taxable income or loss and recorded income or loss on an annual basis. Our tax provision for each interim period 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 2019 three-month period, these estimates increased our statutory Federal income tax rate of 21% to our effective income tax rate of 28% as follows: state income taxes added 5% and permanent differences between our U.S. GAAP income and taxable income added 2%.

Nine-Months Ended September 30, 2019 (“the 2019 nine-month period”) Compared to Nine-Months Ended September 30, 2018 (“the 2018 nine-month period”)

Revenue. Total revenue increased \$787 million, or 104%, to \$1.5 billion in the 2019 nine-month period from the 2018 nine-month period. The 2019 Acquisitions accounted for approximately \$819 million of the increase in our total revenue in the 2019 nine-month period compared to the 2018 nine-month period. Excluding the 2019 Acquisitions, total revenue decreased by \$32 million primarily due to a decrease of \$59 million in political advertising revenue as a result of 2019 being the “off-year” of the two-year election cycle partially offset by an increase in retransmission consent revenue. Excluding the 2019 Acquisitions, retransmission consent revenue increased \$37 million due to increases in rates.

Excluding the 2019 Acquisitions local and national advertising revenue declined slightly, but was partially offset by revenue from the broadcast of the 2019 Super Bowl on our CBS-affiliated stations of approximately \$5 million, compared to \$2 million that we earned from the broadcast of the 2018 Super Bowl on our NBC-affiliated stations. In addition, this decrease was also partly the result of no Olympic Games taking place in 2019, compared to \$6 million of revenue from the broadcast of the 2018 Winter Olympic Games on our NBC-affiliated stations.

Broadcast Expenses. Broadcast expenses (before depreciation, amortization and gain or loss on disposal of assets) increased \$549 million, or 126%, to \$986 million. The 2019 Acquisitions accounted for nearly all of the increase in our total broadcast expenses in the 2019 nine-month period compared to the 2018 nine-month period. The remaining difference represented an increase in retransmission expense, consistent with the increased retransmission consent revenue. Broadcast expenses also included transaction related expenses including \$29 million of charges for termination of certain sales representation agreements and \$9 million of incentive compensation and severance costs each related to the 2019 Acquisitions in the 2019 nine-month period. Non-cash stock based compensation included in broadcast expenses was \$3 million and \$2 million, respectively, in the 2019 and 2018 nine-month periods.

Production Company Expenses. Production company expenses (before depreciation, amortization and loss (gain) on disposal of assets) related to the production companies acquired in the Raycom Merger, were \$57 million in the 2019 nine-month period. Non-compensation expenses were \$41 million, of which the primary components included the costs for the rights to broadcast sporting events of \$26 million and professional services of \$9 million. Total compensation expenses were \$16 million.

Corporate and Administrative Expenses. Corporate and administrative expenses (before depreciation, amortization and gain or loss on disposal of assets) increased by \$53 million, or 177%, to \$83 million in the 2019 nine-month period compared to the 2018 nine-month period primarily as a result of transaction related expenses including \$24 million in professional fees related to the 2019 Acquisitions. We also incurred \$10 million of incentive compensation and severance compensation related to the 2019 Acquisitions. We recorded corporate non-cash stock-based amortization expense of \$7 million and \$4 million in the 2019 and 2018 nine-month periods, respectively.

Depreciation. Depreciation of property and equipment totaled \$60 million and \$41 million in the 2019 and the 2018 nine-month periods, respectively. Depreciation increased primarily due to the addition of depreciable assets acquired as a part of the 2019 Acquisitions.

Amortization. Amortization of intangible assets totaled \$86 million and \$16 million in the 2019 and the 2018 nine-month periods, respectively. Amortization increased primarily due to the definite-lived intangible assets acquired as a part of the 2019 Acquisitions.

(Gain) Loss on Disposals of Assets, Net. We reported gains on disposals of assets of \$27 million in the 2019 nine-month period and \$6 million in the 2018 nine-month period. These gains were primarily related to assets disposals from the FCC Repack process.

Interest Expense. Interest expense increased \$99 million, or 134%, to \$173 million for the 2019 nine-month period compared to the 2018 nine-month period. This increase was attributable to borrowings to finance the Raycom Merger, including, \$1.4 billion under our senior credit facility and \$750 million of our 2027 Notes. The average interest rate on our total outstanding debt balance was 5.5% and 5.1% during the 2019 and 2018 nine-month periods, respectively.

Our average outstanding debt balance was \$4.0 billion and \$1.8 billion during the 2019 and 2018 nine-month periods, respectively.

Income Tax Expense. We recognized income tax expense of \$44 million and \$43 million in the 2019 and 2018 nine-month periods, respectively. Our effective income tax rates were 34% and 26% in the 2019 and 2018 nine-month periods, respectively. We estimate our differences between taxable income or loss and recorded income or loss on an annual basis. Our tax provision for each interim period 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 2019 nine-month period, these estimates increased our statutory Federal income tax rate of 21% to our effective income tax rate of 34% as follows: state income taxes added 5%, permanent differences between our U.S. GAAP income and taxable income added 2% and divestiture of component 2 goodwill resulted in an increase of 6%.

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Liquidity and Capital Resources

General

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

	Nine Months Ended September 30,	
	2019	2018
Net cash provided by operating activities	\$ 255	\$ 186
Net cash used in investing activities	(2,646)	(33)
Net cash provided by (used in) financing activities	1,298	(64)
Net (decrease) increase in cash	<u>\$ (1,093)</u>	<u>\$ 89</u>

	As of	
	September 30, 2019	December 31, 2018
Cash	\$ 326	\$ 667
Restricted Cash	-	752
Long-term debt, including current portion	\$ 3,895	\$ 2,549
Borrowing availability under Revolving Credit Facility	\$ 200	\$ 100

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

Net cash provided by operating activities was \$255 million in the 2019 nine-month period compared to \$186 million in the 2018 nine-month period. The increase of \$69 million in the 2019 nine-month period was the result of a \$38 million decrease in net income, offset by a \$66 million increase in net non-cash expenses, primarily depreciation of fixed assets and amortization of definite-lived intangible assets related to the Raycom Merger. Approximately \$41 million of cash was provided by changes in net working capital.

Net cash used in investing activities was \$2.6 billion in the 2019 nine-month period compared to net cash used in investing activities of \$33 million for the 2018 nine-month period. The increase was due to cash used for the 2019 Acquisitions in the 2019 nine-month period.

Net cash provided by financing activities was approximately \$1.3 billion in the 2019 nine-month period compared to net cash used in financing activities of \$64 million in the 2018 nine-month period. The change to cash provided in the 2019 nine-month period, compared to cash used in the 2018 nine-month period, was due largely to financing activity for the 2019 Acquisitions. In the 2019 and 2018 nine-month periods we used \$11 million and \$20 million of cash, respectively, to repurchase of shares of our common stock.

Liquidity

As of September 30, 2019 we had \$14 million in debt principal payments due over the next twelve months. On November 1, 2019, we made a voluntary pre-payment of \$100 million of our 2019 Term Loan, using cash on hand. This pre-payment reduced the lenders' total loan commitment for the 2019 Term Loan by an equal amount and relieved our obligation to make quarterly payments of loan principal on the 2019 Term Loan. Currently we estimate that we will make approximately \$202 million in debt interest payments over the twelve months immediately following September 30, 2019.

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 2019 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, preferred stock dividends 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 believe that our future cash expected to be generated from operations and borrowing availability under the 2019 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 February 7, 2024, which is the maturity date of the term loans under the 2019 Senior Credit Facility.

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Capital Expenditures

In April 2017, the FCC began the process of requiring certain television stations to change channels and/or modify their transmission facilities ("Repack"). Capital expenditures, including Repack, for the 2019 and 2018 nine-month periods were \$73 million and \$35 million, respectively. Excluding Repack, our capital expenditures for the 2019 and 2018 nine months periods were \$38 million and \$16 million, respectively. Our capitalized Repack costs for the 2019 and 2018 nine-month periods were \$34 million and \$17 million, respectively. As of September 30, 2019, the amount requested from the FCC for

Repack, but not yet received, was approximately \$8 million. Excluding Repack, we expect that our capital expenditures will be approximately \$35 million to \$37 million during the remainder of 2019. In addition, capital expenditures for Repack during the remainder of 2019 are expected to range between approximately \$2 million and \$3 million and we anticipate being reimbursed for the majority of these Repack costs. However, reimbursement may be received in periods subsequent to those in which they were expended.

Subsequent Acquisition and Divestiture

On October 1, 2019, we acquired the assets of WVIR-TV (NBC) in the Charlottesville, Virginia market (DMA 183) from Waterman Broadcasting Corporation for \$12 million using cash on hand (the “Charlottesville Acquisition”). Also, on October 1, 2019, in order to meet regulatory requirements, we divested our legacy stations in that market, WCAV-TV (CBS/FOX) and WVAW-TV (ABC). We expect that the divestiture will result in a gain of approximately \$19 million that will be reported in the fourth quarter of 2019.

Other

We file a consolidated federal income tax return and such state and local tax returns as are required. We made income tax payments (net of refunds) of approximately \$12 million and \$27 million in the 2019 and 2018 nine-month periods, respectively. We anticipate making income tax payments (net of refunds) of approximately \$13 million during the remainder of 2019.

We have approximately \$776 million in federal operating loss carryforwards, that expire during the years 2021 through 2037. We expect to have federal taxable income in the carryforward periods, therefore we believe that it is more likely than not that these federal operating loss carryforwards will be fully utilized. Additionally, we have an aggregate of approximately \$837 million of various state operating loss carryforwards, of which we expect approximately \$564 million will be utilized.

During the 2019 nine-month period, we contributed \$3 million to our defined benefit pension plan.

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 discussed in our 2018 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 21E 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, income tax payments, the expected impact of acquisitions and divestitures and capital expenditures 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 2018 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, 2019 has not materially changed since December 31, 2018. The market risk profile as of December 31, 2018 is disclosed in our 2018 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.

During the nine-month period ended September 30, 2019, we implemented changes in our internal control over financial reporting in connection with the adoption of ASU 2016-02 – *Leases* (Topic 842). These changes included controls related to the collection of data for the amounts that we disclose in the footnotes to our financial statements. Our evaluation included controls that may have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

During the nine-month period ended September 30, 2019, we began implementing changes in our internal control over financial reporting in connection

with the Raycom Merger. These changes will continue to be identified and implemented during the remainder of 2019.

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 2018 Form 10-K for a description of risk factors that we determined to be most material to our financial condition and results of operations. We do not believe there have been any material changes in these risk factors. Additional risks not currently known to us or that we do not currently consider material may also materially adversely affect our financial condition and results of operations in the future.

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 million shares of the Company's common stock or Class A common stock. In March 2006, this authorization was increased to an aggregate of 5 million shares (the “2004-2006 Repurchase Authorization”). As of September 30, 2019, 279,200 shares remain available for repurchase under this authorization, which has no expiration date.

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On November 6, 2016, the Board of Directors of the Company authorized the Company to purchase up to an additional \$75 million of our outstanding common stock prior to December 31, 2019 (the “2016 Repurchase Authorization”).

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, and the repurchase authorizations may be modified, suspended or terminated at any time without prior notice.

The following table summarizes repurchases of our common stock in the three-months ended September 30, 2019, all of which were pursuant to the 2016 Repurchase Authorization:

Period	Total Number of Shares Purchased (1)	Average Price Paid per Share (2)	Total Number of Shares Purchased as Part of Publicly Announced Plans	Maximum Number of Shares (or Approximate Dollar Value) that May Yet Be Purchased Under the Plans or Programs (3)
July 1, 2019 through July 31, 2019:	-	\$ 0.00	-	\$ 54,153,513
August 1, 2019 through August 31, 2019:	-	\$ 0.00	-	\$ 53,952,489
September 1, 2019 through September 30, 2019:	651,593	\$ 16.37	651,593	\$ 43,460,063
Total	651,593	\$ 16.67	651,593	

- (1) All shares purchased were shares of common stock.
- (2) Amount excludes brokerage commissions.
- (3) The amounts presented at each respective month-end include the aggregate of the remaining dollar value available to purchase our common stock under the 2016 Repurchase Authorization and the approximate dollar value available for repurchase of our Class A common stock or our common stock, under the 2004-2006 Repurchase Authorization.

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Item 6. Exhibits

The following exhibits are filed as part of this Quarterly Report:

Exhibit Number	Description of Document
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.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline 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 7, 2019

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 7, 2019

By: /s/ Hilton H. Howell, Jr.
Hilton H. Howell, Jr.
Executive Chairman 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 7, 2019

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, 2019 (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 7, 2019

/s/ Hilton H. Howell, Jr.

Hilton H. Howell, Jr.

Executive Chairman 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, 2019 (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 7, 2019

/s/ James C. Ryan

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.