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 June 30, 2012

or

☐ **Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the transition period from to .

Commission file number 1-13796

Gray Television, Inc.
(Exact name of registrant as specified in its charter)

Georgia **(State or other jurisdiction of incorporation or organization)**	**58-0285030** **(I.R.S. Employer Identification Number)**
4370 Peachtree Road, NE, Atlanta, Georgia **(Address of principal executive offices)**	**30319** **(Zip code)**

(404) 504-9828
(Registrant's telephone number, including area code)

Not Applicable
(Former name, former address and former fiscal year, if changed since last report.)

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

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

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

Large accelerated filer	☐	Accelerated filer	☒
Non-accelerated filer	☐ (do not check if a smaller reporting company)	Smaller Reporting Company	☐

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

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

Common Stock (No Par Value)	Class A Common Stock (No Par Value)
51,843,529 shares outstanding as of July 31, 2012	5,753,020 shares outstanding as of July 31, 2012

Table of Contents

INDEX

GRAY TELEVISION, INC.

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	June 30, 2012	December 31, 2011
Assets:		
Current assets:		
Cash	$ 28,041	$ 5,190
Accounts receivable, less allowance for doubtful accounts of $2,114 and $2,314, respectively	60,723	62,085
Current portion of program broadcast rights, net	2,411	7,359
Deferred tax asset	2,762	2,762
Prepaid and other current assets	3,415	1,959
Total current assets	97,352	79,355
Property and equipment, net	133,992	137,099
Deferred loan costs, net	8,589	10,115
Broadcast licenses	818,981	818,981
Goodwill	170,522	170,522
Other intangible assets, net	675	712
Investment in broadcasting company	13,599	13,599
Other	3,025	3,597
Total assets	$1,246,735	$1,233,980

See notes to condensed consolidated financial statements.

Table of Contents

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

	June 30, 2012	December 31, 2011
Liabilities and stockholders' equity:		
Current liabilities:		
Accounts payable	$ 2,389	$ 2,045
Employee compensation and benefits	12,462	11,619
Accrued interest	7,597	7,939
Other accrued expenses	8,417	6,725
Federal and state income taxes	2,475	2,794
Current portion of program broadcast obligations	5,126	10,124
Deferred revenue	5,447	3,468
Current portion of long-term debt	4,823	4,823
Total current liabilities	48,736	49,537
Long-term debt, less current portion	816,675	827,410
Program broadcast obligations, less current portion	629	1,036
Deferred income taxes	167,133	157,832
Long-term deferred revenue	751	1,061
Long-term accrued dividends	15,920	13,717
Accrued pension costs	35,656	34,417
Other	1,113	1,176
Total liabilities	1,086,613	1,086,186
Commitments and contingencies (Note 7)		
Series D perpetual preferred stock, no par value; cumulative; redeemable; designated 1.00 shares, issued and outstanding 0.259 shares ($25,921 aggregate liquidation value)	24,996	24,841
Stockholders' equity:		
Common stock, no par value; authorized 100,000 shares, issued 56,496 shares and 56,057 shares, respectively	480,035	479,869
Class A common stock, no par value; authorized 15,000 shares, issued 7,332 shares	15,321	15,321
Accumulated deficit	(281,315)	(293,322)
Accumulated other comprehensive loss, net of income tax benefit	(16,402)	(16,402)
	197,639	185,466
Treasury stock at cost, common stock, 4,655 shares	(40,115)	(40,115)
Treasury stock at cost, Class A common stock, 1,579 shares	(22,398)	(22,398)
Total stockholders' equity	135,126	122,953
Total liabilities, preferred stock and stockholders' equity	$1,246,735	$1,233,980

See notes to condensed consolidated financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Revenue (less agency commissions)	$ 94,691	$ 76,201	$175,365	$145,943
Operating expenses before depreciation, amortization and gain on disposal of assets, net:				
Broadcast	52,829	47,930	103,601	96,109
Corporate and administrative	3,629	3,402	6,735	6,440
Depreciation	5,716	6,638	11,607	13,636
Amortization of intangible assets	18	34	37	68
Gain on disposals of assets, net	(547)	(831)	(482)	(844)
	61,645	57,173	121,498	115,409
Operating income	33,046	19,028	53,867	30,534
Other income (expense):				
Miscellaneous income (expense), net	—	3	2	3
Interest expense	(15,126)	(15,343)	(30,289)	(31,343)
Income (loss) before income taxes	17,920	3,688	23,580	(806)
Income tax expense (benefit)	6,926	1,129	9,215	(282)
Net income (loss)	10,994	2,559	14,365	(524)
Preferred stock dividends (includes accretion of issuance cost of $77, $118, $154, and $236, respectively)	1,179	1,788	2,358	3,577
Net income (loss) attributable to common stockholders	$ 9,815	$ 771	$ 12,007	$ (4,101)
Basic per share information:				
Net income (loss) attributable to common stockholders	$ 0.17	$ 0.01	$ 0.21	$ (0.07)
Weighted-average shares outstanding	57,151	57,115	57,149	57,113
Diluted per share information:				
Net income (loss) attributable to common stockholders	$ 0.17	$ 0.01	$ 0.21	$ (0.07)
Weighted-average shares outstanding	57,190	57,116	57,169	57,113
Dividends declared per common share	$ —	$ —	$ —	$ —

See notes to condensed consolidated financial statements.

Table of Contents

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

	Class A Common Stock		Common Stock		Accumulated	Class A Treasury Stock		Common Treasury Stock		Accumulated Other Comprehensive	
	Shares	Amount	Shares	Amount	Deficit	Shares	Amount	Shares	Amount	Loss	Total
Balance at December 31, 2011	7,331,574	$15,321	56,057,070	$479,869	$ (293,322)	(1,578,554)	$(22,398)	(4,654,750)	$(40,115)	$ (16,402)	$122,953
Net income	—	—	—	—	14,365	—	—	—	—	—	14,365
Preferred stock dividends (including accretion of original issuance costs)	—	—	—	—	(2,358)	—	—	—	—	—	(2,358)
Issuance of common stock:											
401(k) plan	—	—	6,794	12	—	—	—	—	—	—	12
2007 Long Term Incentive Plan	—	—	432,396	—	—	—	—	—	—	—	—
Stock-based compensation	—	—	—	154	—	—	—	—	—	—	154
Balance at June 30, 2012	7,331,574	$15,321	56,496,260	$480,035	$ (281,315)	(1,578,554)	$(22,398)	(4,654,750)	$(40,115)	$ (16,402)	$135,126

See notes to condensed consolidated financial statements.

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

	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Operating activities		
Net income (loss)	$ 14,365	$ (524)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation	11,607	13,636
Amortization of intangible assets	37	68
Amortization of deferred loan costs	1,506	1,437
Amortization of original issue discount on 10 $^{1}/_{2}$% senior secured second lien notes due 2015	676	676
Amortization of restricted stock and stock option awards	154	68
Amortization of program broadcast rights	5,477	7,414
Payments on program broadcast obligations	(5,596)	(8,738)
Deferred income taxes	9,302	(282)
Gain on disposal of assets, net	(482)	(844)
Other	815	1,094
Changes in operating assets and liabilities:		
Receivables	1,362	8,409
Other current assets	(1,207)	(827)
Accounts payable	441	(2,661)
Other current liabilities	6,992	(1,603)
Accrued interest	(342)	(61)
Net cash provided by operating activities	45,107	17,262
Investing activities		
Purchases of property and equipment	(11,561)	(16,652)
Proceeds from asset sales	775	1,027
Payments on acquisition-related liabilities	(42)	(253)
Other	(17)	(321)
Net cash used in investing activities	(10,845)	(16,199)
Financing activities		
Proceeds from borrowings on long-term debt	3,000	9,000
Repayments of borrowings on long-term debt	(14,411)	(11,411)
Deferred loan costs	—	(626)
Net cash used in financing activities	(11,411)	(3,037)
Net increase (decrease) in cash	22,851	(1,974)
Cash at beginning of period	5,190	5,431
Cash at end of period	$ 28,041	$ 3,457

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 as of December 31, 2011, which was derived from the audited financial statements as of December 31, 2011 of Gray Television, Inc. ("we", "us", "our", "Gray" or the "Company") and our accompanying unaudited condensed consolidated financial statements as of June 30, 2012 and for the periods ended June 30, 2012 and 2011 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 of normal recurring accruals) considered necessary for a fair statement have been included. Our operations consist of one reportable segment. For further information, refer to the consolidated financial statements and footnotes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2011 (the "2011 Form 10-K"). Our financial condition as of, and operating results for the three-month and six-month periods ended, June 30, 2012 are not necessarily indicative of the financial condition and results that may be expected for any future interim period or for the year ending December 31, 2012.

Seasonality and Cyclicality

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. Broadcast advertising revenue is also generally higher in even-numbered years due to spending by political candidates, political parties and special interest groups. This political spending typically is heaviest during the fourth quarter of such years.

Use of Estimates

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

Earnings Per Share

We compute basic earnings per share by dividing net income (loss) attributable to common stockholders by the weighted-average number of common shares outstanding during the relevant period. The weighted-average number of common shares outstanding does not include restricted shares. These shares, although classified as issued and outstanding, are considered contingently returnable until the restrictions lapse and are not to be 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 stock 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-month and six-month periods ended June 30, 2012 and 2011 (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Weighted-average shares outstanding - basic	57,151	57,115	57,149	57,113
Shares underlying stock options and restricted stock	39	1	20	—
Weighted-average shares outstanding - diluted	57,190	57,116	57,169	57,113

For periods in which we report a loss, all potentially dilutive common shares are excluded from the computation of diluted earnings per share, since their inclusion would be antidilutive. Securities that could potentially dilute earnings per share in the future, but which were not included in the calculation of diluted earnings per share because their inclusion would have been antidilutive for the periods presented are as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Potentially dilutive common shares outstanding at end of period:				
Shares underlying employee stock options	1,328	1,004	1,328	1,004
Restricted stock	442	33	442	33
Subtotal	1,770	1,037	1,770	1,037
Less dilutive common shares included in weighted-average shares outstanding - diluted	(39)	(1)	(20)	—
Potentially dilutive common shares outstanding at end of period which were excluded from weighted-average shares outstanding - diluted	1,731	1,036	1,750	1,037

Accumulated Other Comprehensive Loss

Our accumulated other comprehensive loss balances as of June 30, 2012 and December 31, 2011 consist of adjustments to our pension liability and income tax benefit as follows (in thousands):

	June 30, 2012	December 31, 2011
Accumulated balances of items included in accumulated other comprehensive loss:		
Increase in pension liability	$(26,889)	$ (26,889)
Income tax benefit	(10,487)	(10,487)
Accumulated other comprehensive loss	$(16,402)	$ (16,402)

Our comprehensive income (loss) for the three-month and six-month periods ended June 30, 2012 and 2011 consists entirely of net income (loss). Therefore, a consolidated statement of comprehensive income (loss) is not presented for the three-month and six-month periods ended June 30, 2012 and 2011.

Property and Equipment

Property and equipment are carried at cost. Depreciation is computed principally by the straight-line method. Maintenance, repairs and minor replacements are charged to operations as incurred; major replacements and betterments are capitalized. The cost of any assets sold or retired and the related accumulated depreciation are removed from the accounts at the time of disposition, and any resulting profit or loss is reflected in income or expense for the period. The following table lists components of property and equipment by major category (in thousands):

	June 30, 2012	December 31, 2011	Estimated Useful Lives
Property and equipment:			
Land	$ 23,478	$ 23,451	
Buildings and improvements	53,785	53,322	7 to 40 years
Equipment	312,907	308,454	3 to 20 years
	390,170	385,227	
Accumulated depreciation	(256,178)	(248,128)	
Total property and equipment, net	$ 133,992	$ 137,099	

Allowance for Doubtful Accounts

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

Recent Accounting Pronouncements

We have reviewed all recently issued accounting pronouncements. Of those pronouncements that have been issued but are not yet effective, we do not anticipate a material impact upon our financial statements upon our adoption of those pronouncements. None of the pronouncements that became effective and were adopted by us during the six months ended June 30, 2012 had a material effect upon our results of operations or financial position.

Reclassifications

Certain reclassifications have been made in the current liability section of our condensed consolidated balance sheet as of December 31, 2011 in order to conform to the presentation as of June 30, 2012. The reclassifications did not change our total current liabilities as of December 31, 2011. Certain reclassifications have been made within the operating section of our condensed consolidated statement of cash flows for the six months ended June 30, 2011 in order to conform to the presentation for the six months ended June 30, 2012. The reclassifications did not change our net cash provided by operating activities for the six months ended June 30, 2011.

2. Long-term Debt

Long-term debt consists of our senior credit facility and 10 1/2% senior secured second lien notes due 2015 (the "Notes") as follows (in thousands):

	June 30, 2012	December 31, 2011
Long-term debt including current portion:		
Senior credit facility	$460,557	$ 471,968
Notes at liquidation value	365,000	365,000
Total long-term debt including current portion at liquidation value	825,557	836,968
Less unamortized discount on Notes	(4,059)	(4,735)
Total long-term debt at recorded value	$821,498	$ 832,233
Borrowing availability under our senior credit facility	$ 40,000	$ 31,000

Our senior credit facility consists of a revolving loan, which matures March 19, 2014, and a term loan, which matures December 31, 2014. Excluding accrued interest, the amount outstanding under our senior credit facility as of June 30, 2012 was comprised solely of a term loan balance of $460.6 million. Excluding accrued interest, the amount outstanding under our senior credit facility as of December 31, 2011 was $472.0 million comprised of a term loan balance of $463.0 and a revolving loan balance of $9.0 million. Our maximum borrowing availability is limited by our required compliance with certain restrictive covenants, including a first lien net leverage ratio covenant. As of June 30, 2012 and December 31, 2011, we were in compliance with all covenants required under our debt obligations.

As of June 30, 2012 and December 31, 2011, we had $365.0 million of Notes outstanding. Our Notes mature on June 29, 2015.

As of June 30, 2012 and December 31, 2011, the interest rate on the balance outstanding under the senior credit facility was 3.7% and 3.8%, respectively. As of June 30, 2012 and December 31, 2011, the coupon interest rate and the yield on the Notes were 10.5% and 11.0%, respectively. The yield on the Notes exceeds the coupon interest rate because the Notes were issued with "original issue discount".

As of June 30, 2012 and December 31, 2011, we had a deferred loan cost balance, net of accumulated amortization, of $3.3 million and $4.0 million, respectively, related to our senior credit facility. As of June 30, 2012 and December 31, 2011, we had a deferred loan cost balance, net of accumulated amortization, of $5.3 million and $6.1 million, respectively, related to our Notes.

The collateral for our debt obligations consists of substantially all of our and our subsidiaries' assets. In addition, certain of our subsidiaries are joint and several guarantors of these obligations and our ownership interests in our subsidiaries are pledged to collateralize the obligations.

3. 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 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 $821.5 million and $832.2 million, respectively, and the fair value was $834.4 million and $801.0 million, respectively as of June 30, 2012 and December 31, 2011. We classify our long-term debt within Level 2 of the fair value hierarchy. Fair value of our long-term debt is based on observable estimates provided by third-party financial professionals as of June 30, 2012 and December 31, 2011.

4. Preferred Stock

As of June 30, 2012 and December 31, 2011, we had 259 shares of Series D Perpetual Preferred Stock outstanding. The Series D Perpetual Preferred Stock has a liquidation value of $100,000 per share, for a total liquidation value of $25.9 million as of June 30, 2012 and December 31, 2011. The Series D Perpetual Preferred Stock had a recorded value of $25.0 million and $24.8 million as of June 30, 2012 and December 31, 2011, respectively. The difference between the liquidation values and the recorded values was the unaccreted portion of the original issuance discount and issuance cost. Our accrued Series D Perpetual Preferred Stock dividend balances as of June 30, 2012 and December 31, 2011 were $15.9 million and $13.7 million, respectively.

Except for the payment of dividends in connection with certain repurchases of portions of the Series D Perpetual Preferred Stock, we have deferred the cash payment of dividends on our Series D Perpetual Preferred Stock since October 1, 2008. While three consecutive cash dividend payments with respect to the Series D Perpetual Preferred Stock remain unfunded, the dividend rate will remain at 17.0% per annum.

While any Series D Perpetual Preferred Stock dividend payments are in arrears, we are prohibited from repurchasing, declaring and/or paying any cash dividend with respect to any equity securities having liquidation preferences equivalent to or junior in ranking to the liquidation preference of the Series D Perpetual Preferred Stock, including our common stock and Class A common stock. We can provide no assurances as to when any future cash payments will be made on any accumulated and unpaid Series D Perpetual Preferred Stock dividends presently in arrears or that become in arrears in the future. The Series D Perpetual Preferred Stock has no mandatory redemption date but, pursuant to its terms, is redeemable by the Company at any time and may be redeemed at the stockholders’ option on or after June 30, 2015. We have deferred cash dividends on our Series D Perpetual Preferred Stock and correspondingly suspended cash dividends on our common stock and Class A common stock to, among other things, reallocate cash resources and support our ability to pay interest costs and fees associated with our senior credit facility and Notes.

5. Retirement Plans

The following table provides the components of net periodic benefit cost for our pension plans for the three-month and six-month periods ended June 30, 2012 and 2011, respectively (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Service cost	$ 1,147	$ 1,066	$ 2,295	$ 2,132
Interest cost	830	753	1,660	1,506
Expected return on plan assets	(682)	(616)	(1,365)	(1,232)
Loss amortization	576	154	1,151	308
Net periodic benefit cost	$ 1,871	$ 1,357	$ 3,741	$ 2,714

During the six-month period ended June 30, 2012, we contributed $2.3 million to our pension plans. During the remainder of the year ending December 31, 2012, we expect to contribute an additional $4.6 million to our pension plans.

6. Stock-based Compensation

We recognize compensation expense for stock-based payment awards made to our employees and directors, including stock options and restricted stock under our 2007 Long Term Incentive Plan and our Directors' Restricted Stock Plan. We recognize the fair value of the stock options and restricted stock on the date of grant as compensation expense, and such expense is amortized over the vesting period of the stock option or restricted stock award.

The following table provides our stock-based compensation expense and related income tax benefit for the three-month and six-month periods ended June 30, 2012 and 2011, respectively (in thousands).

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Stock-based compensation expense, gross	$ 140	$ 34	$ 154	$ 68
Income tax benefit at our statutory rate associated with stock-based compensation	(55)	(13)	(60)	(27)
Stock-based compensation expense, net	$ 85	$ 21	$ 94	$ 41

2007 Long Term Incentive Plan

The 2007 Long Term Incentive Plan, as amended, currently authorizes the grant of stock options, restricted stock awards and other equity-based incentive awards to our officers, non-employee directors and employees. During the six-month period ended June 30, 2012, we granted 432,396 shares of restricted common stock and we also granted options to acquire 359,568 shares of our common stock to certain executive officers. During the year ended December 31, 2011, we did not grant any stock-based awards under this plan. The fair value for each stock option granted during the six-month period ended June 30, 2012 was estimated at $1.62 per share at the date of grant using the Black-Scholes option pricing model, using for each grant respectively, the following assumptions:

	Six Months Ended June 30, 2012
Expected term (in years)	6.3
Volatility	104.9%
Risk-free interest rate	1.0%
Dividend yield	0.0%
Expected forfeitures	0.0%

A summary of award activity related to our common stock for the six-month period ended June 30, 2012 under our 2007 Long Term Incentive Plan is as follows (number of shares underlying options and number of restricted shares in thousands):

	Six Months Ended June 30, 2012	
	Number of Shares Underlying Options	Weighted-Average Exercise Price
Stock options - common stock:		
Stock options outstanding - beginning of period	1,002	$ 7.50
Options granted	360	$ 1.99
Options expired	(32)	$ 8.61
Options forfeited	(2)	$ 7.64
Stock options outstanding - end of period	1,328	$ 5.98
Exercisable at end of period	969	$ 7.47

	Six Months Ended June 30, 2012	
	Number of Shares	Weighted-average Grant Date Fair Value Per Share
Restricted stock - common stock:		
Restricted stock, beginning of period	—	$ —
Granted	432	1.65
Vested	—	—
Restricted stock, end of period	432	$ 1.65

During the six-month period ended June 30, 2012, we did not have any options outstanding for our Class A common stock. As of June 30, 2012, the market price of our common stock was less than the exercise prices for all of our outstanding stock options.

Directors' Restricted Stock Plan

The Directors' Restricted Stock Plan authorizes the grant of restricted stock awards to our non-employee directors. During the six-month period ended June 30, 2012 and the year ended December 31, 2011, we did not grant any shares of restricted stock to our non-employee directors under this plan.

The following table summarizes restricted share activity under our Directors' Restricted Stock Plan during the six-month period ended June 30, 2012 and the weighted-average fair value per share granted thereunder as of the date of grant (shares in thousands):

	Six Months Ended June 30, 2012	
	Number of Shares	Weighted-average Grant Date Fair Value Per Share
Restricted stock - common stock:		
Restricted stock, beginning of period	10	$ 4.94
Granted	—	—
Vested	—	—
Restricted stock, end of period	10	$ 4.94

7. Commitments and Contingencies

Legal Proceedings and Claims

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

Sports Marketing Agreement

On October 12, 2004, the University of Kentucky ("UK") awarded a sports marketing agreement jointly to us and IMG Worldwide, Inc. ("IMG") (the "UK Agreement"). The UK Agreement expires April 15, 2015.

The UK Agreement provides that we will share in profits in excess of certain amounts specified by the agreement, if any, but not losses. The agreement also provides that we will separately retain all local broadcast advertising revenue and pay all local broadcast expenses for activities under the agreement. Under the agreement, IMG agreed to make all license fee payments to UK. However, if IMG is unable to pay the license fee to UK, we will then be required to pay the unpaid portion of the license fee to UK. As of June 30, 2012, the aggregate license fee to be paid by IMG to UK over the remaining term of the agreement is approximately $25.8 million. If we make advances on behalf of IMG, IMG is required to reimburse us for the amount paid within 60 days after the close of each contract year, which ends on June 30th. IMG has also agreed to pay interest on any advance at a rate equal to the prime rate. During the six-month period ended June 30, 2012, we did not advance any amounts to UK on behalf of IMG under this agreement. As of June 30, 2012, we do not consider the risk of non-performance by IMG to be high.

8. Goodwill and Intangible Assets

Our intangible assets are primarily comprised of network affiliations and broadcast licenses. We did not acquire any network affiliation agreements or material broadcast licenses during the six-month period ended June 30, 2012. Upon renewal of such intangible assets, we expense all related fees as incurred. There were no triggering events that required a test of impairment of our goodwill or intangible assets during the six-month period ended June 30, 2012.

9. Income Taxes

For the three-month and six-month periods ended June 30, 2012 and 2011, our income tax expense (benefit) and effective tax rates were as follows (dollars in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Income tax expense (benefit)	$6,926	$1,129	$9,215	$(282)
Effective income tax rate	38.6%	30.6%	39.1%	35.0%

We estimate our differences between taxable income or loss and recorded income or loss on an annual basis. Our tax provision for each quarter is based upon these full year projections which are revised each reporting period. These projections incorporate estimates of permanent differences between U.S. GAAP income or loss and taxable income or loss, state income taxes and adjustments to our liability for unrecognized tax benefits to adjust our statutory Federal income tax rate of 35.0% to our effective income tax rate.

For the six-month period ended June 30, 2012, these estimates increased or decreased our statutory Federal income tax rate of 35.0% to our effective income tax rate of 39.1% as follows: state income taxes added 4.9% and permanent differences between our U.S. GAAP income and taxable income added 0.6%, while adjustments to our reserve for uncertain tax positions resulted in a reduction of 1.4%.

For the six-month period ended June 30, 2011, these estimates increased or decreased our statutory Federal income tax rate of 35.0% to our effective income tax rate of 35.0% as follows: state income taxes added 7.5% and permanent differences between our U.S. GAAP loss and taxable loss added 4.6%, while adjustments to our reserve for uncertain tax positions resulted in a reduction of 12.1%.

10. Subsequent Event

On July 31, 2012, we repurchased 122.76 shares of our outstanding Series D Perpetual Preferred Stock at their liquidation value of $12.3 million and also paid $7.7 million in accrued dividends related thereto.

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

Executive Overview

Introduction

The following analysis of the financial condition and results of operations of Gray Television, Inc. ("we", "us", "our", "Gray" or the "Company") should be read in conjunction with our unaudited condensed consolidated financial statements and related notes contained in this report and our audited consolidated financial statements and related notes contained in our Annual Report on Form 10-K for the fiscal year ended December 31, 2011 (the "2011 Form 10-K").

Overview

Currently, we own and operate television stations broadcasting 36 primary channels in 30 television markets. Seventeen of our primary channels are affiliated with the CBS Network owned by CBS Inc. ("CBS"), ten are affiliated with the NBC Network owned by National Broadcasting Company, Inc. ("NBC"), eight are affiliated with the ABC Network owned by American Broadcasting Company ("ABC"), and one is affiliated with the FOX Network owned by the FOX Broadcasting Company ("FOX"). Our 17 CBS-affiliated stations make us the largest independent owner of CBS affiliates in the United States. In addition to our primary channels that we broadcast from our television stations, we currently broadcast 41 secondary channels including one affiliated with ABC, four affiliated with FOX, eight affiliated with the CW Network or the CW Plus Network, both owned by The CW Network, LLC (collectively "CW"), 18 affiliated with Master Distribution Service, Inc. (an affiliate of Twentieth Television, Inc.) ("MyNetworkTV" or "MyNet."), one affiliated with Untamed Sports Network ("USN"), one affiliated with The Country Network ("TCN"), one affiliated with MeTV Network and seven local news/weather channels in certain of our existing markets. In addition, we have entered into agreements to launch three additional CBS affiliated secondary channels in certain of our existing markets in the fall of 2012. We created our secondary channels to better utilize our excess broadcast spectrum. Our secondary channels are similar to our primary channels; however, our secondary channels are affiliated with networks different from those affiliated with our primary channels. Our combined TV station group reaches approximately 6.2% of total United States households.

Television Industry Background

The Federal Communications Commission (the "FCC") grants broadcast licenses to television stations. Historically, there have been a limited number of channels available for broadcasting in any one geographic area.

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

Revenues, Cyclicality and Seasonality

Because broadcast stations like ours rely on advertising revenues, they are sensitive to cyclical changes in the economy. As a result, our non-political advertising revenue was significantly negatively affected during the recent economic recession, but improved along with the general economic environment in 2011 and has continued to improve in 2012.

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

For the six month period ended June 30, 2012, our largest nonpolitical advertising customer categories were the automotive and medical categories. For the six month period ended June 30, 2012, we earned approximately 20% and 10% of our total broadcast advertising revenue from the automotive and medical categories, respectively. In the six month period ended June 30, 2011, we earned approximately 21% and 11% of our total broadcast advertising revenue from the automotive and medical categories, respectively. Our business and operating results could be materially adversely affected if automotive or medical-related advertising revenue decreases. Our business and operating results could also be materially adversely affected if revenue decreased from one or more other significant advertising categories, such as the restaurant, communications, furniture and appliances, entertainment, or financial services.

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

Revenue

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

	Three Months Ended June 30,				Six Months Ended June 30,			
	2012		2011		2012		2011	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total
Revenue:								
Local	$48,417	51.1%	$47,785	62.7%	$ 94,292	53.8%	$ 91,550	62.7%
National	14,321	15.1%	13,428	17.6%	27,327	15.6%	26,403	18.1%
Internet	6,359	6.7%	4,865	6.4%	12,051	6.9%	9,112	6.2%
Political	13,138	13.9%	2,316	3.0%	18,097	10.3%	3,697	2.5%
Retransmission consent	8,279	8.7%	5,055	6.6%	16,757	9.6%	10,102	6.9%
Other	3,627	3.8%	2,202	3.0%	5,496	3.1%	3,979	2.8%
Consulting	550	0.7%	550	0.7%	1,345	0.7%	1,100	0.8%
Total	$94,691	100.0%	$76,201	100.0%	$175,365	100.0%	$145,943	100.0%

Results of Operations

Three Months Ended June 30, 2012 (“2012 three-month period”) Compared to Three Months Ended June 30, 2011 (“2011 three-month period”)

Revenue. Total revenue increased $18.5 million, or 24%, to $94.7 million in the 2012 three-month period due primarily to increased political advertising, retransmission consent, local advertising, national advertising, internet advertising, and other revenue. Political advertising revenue increased $10.8 million, or 467%, to $13.1 million, reflecting increased advertising from political candidates and special interest groups during the “on year” of the two-year political advertising cycle. Our political advertising revenue also increased due to additional advertising related to a special election to recall the Governor of Wisconsin, where we have three television stations. Retransmission consent revenue increased $3.2 million, or 64%, to $8.3 million primarily due to the improved terms of our retransmission contracts compared to terms in effect during the 2011 three-month period. A significant portion of our retransmission consent contracts expired on December 31, 2011 and we were able to renew substantially all of these contracts under terms more favorable to Gray, which resulted in increased revenue in the 2012 three-month period compared to the 2011 three-month period. Local advertising revenue increased approximately $0.6 million, or 1%, to $48.4 million. National advertising revenue increased approximately $0.9 million, or 7%, to $14.3 million. Internet advertising revenue increased $1.5 million, or 31%, to $6.4 million. Local and national advertising increased due to increased spending by advertisers in a gradually improving economic environment. While our internet advertising revenue has also benefited from an improved economy, we continue to focus on and invest resources into our internet sales efforts, which have also resulted in increased internet revenue. Our five largest nonpolitical advertising categories on a combined local and national basis by customer type for the 2012 three-month period demonstrated the following changes in revenue during the 2012 three-month period compared to the 2011 three-month period: automotive increased 20%; medical increased 8%; restaurant decreased 5%; communications increased 2%; and furniture and appliances increased 3%. Other revenue increased $1.4 million, or 65%, to $3.6 million due primarily to the receipt of certain copyright royalty payments. If any similar copyright royalty payments are received in future periods, they are likely to recur in lower amounts. We earned consulting revenue of $0.6 million in the 2012 and 2011 three-month periods under our agreement with Young Broadcasting, Inc. (“Young”). This agreement expires on December 31, 2012.

Broadcast expenses. Broadcast expenses (before depreciation, amortization and gain on disposal of assets) increased $4.9 million, or 10%, to $52.8 million in the 2012 three-month period, due primarily to increases in compensation expense of $3.2 million and non-compensation expense of $1.7 million. Compensation expense increased primarily due to increases in salaries, incentive compensation, pension expenses and healthcare expenses. Non-compensation expense increased primarily due to an increase in programing costs and national sales commissions. As of June 30, 2012 and 2011, we employed 2,070 and 2,087 total employees, respectively, in our broadcast operations.

Corporate and administrative expenses. Corporate and administrative expenses (before depreciation, amortization and gain on disposal of assets) increased $0.2 million, or 7%, to $3.6 million in the 2012 three-month period. The increase was due primarily to increases in compensation expense of $0.3 million partially offset by a decrease in non-compensation expense of $0.1 million. Compensation expense increased primarily due to increases in salaries, incentive compensation and stock-based compensation expense. We recorded non-cash stock-based compensation expense during the three-month periods ended June 30, 2012 and 2011 of $140,000 and $34,000, respectively. Non-cash stock-based compensation expense increased due to the grant of additional equity incentive awards during the 2012 three-month period.

Depreciation. Depreciation of property and equipment decreased $0.9 million, or 14%, to $5.7 million during the 2012 three-month period compared to the 2011 three-month period. Depreciation decreased due to a greater amount of property and equipment becoming fully depreciated compared to the amount of property and equipment being placed in service during the 2012 three-month period.

Gain on disposal of assets. Gain on disposal of assets decreased $0.3 million to $0.5 million during the 2012 three-month period as compared to the 2011 three-month period. On March 22, 2011, our primary broadcast tower for WEAU-TV, our station which serves the La Crosse – Eau Claire, Wisconsin market, collapsed during inclement weather. Our loss of property due to the tower collapse was covered by insurance. We recorded a gain on disposal on the old tower of $0.7 million and $0.8 million during the 2012 and 2011 three-month periods, respectively. The gains on the disposal of the WEAU-TV tower were partially offset by losses recorded upon the disposal of certain equipment in the ordinary course of business during the 2012 and 2011 three-month periods.

Interest expense. Interest expense decreased $0.2 million, or 1%, to $15.1 million for the 2012 three-month period. This decrease was attributable to a decrease in average principal outstanding. Our average debt balance was $827.4 million and $831.1 million during the 2012 and 2011 three-month periods, respectively. The average interest rate on our total debt balances was approximately 6.9% during each of the 2012 and 2011 three-month periods.

Income tax expense. We recognized income tax expense of $6.9 million and $1.1 million for the 2012 and 2011 three-month periods, respectively. For the 2012 and 2011 three-month periods, our effective income tax rate was 38.6% and 30.6%, respectively. We estimate our differences between taxable income and recorded income 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 and taxable income, state income taxes and adjustments to our liability for unrecognized tax benefits. Our effective income tax rate for the 2012 three-month period as compared to the 2011 three-month period increased primarily due to a larger reduction in our estimated liability for unrecognized tax benefits in the 2011 three-month period as compared to the 2012 three-month period.

Preferred stock dividends. Preferred stock dividends decreased $0.6 million, or 34%, to $1.2 million for the 2012 three-month period. The decrease in the dividend was due to fewer shares of our Series D Perpetual Preferred Stock being outstanding during the 2012 three-month period compared to the 2011 three-month period.

Six Months Ended June 30, 2012 ("2012 six-month period") Compared to Six Months Ended June 30, 2011 ("2011 six-month period")

Revenue. Total revenue increased $29.4 million, or 20%, to $175.4 million in the 2012 six-month period due primarily to increased political advertising, retransmission consent, local advertising, national advertising, internet advertising, and other revenue. Political advertising revenue increased $14.4 million, or 390%, to $18.1 million, reflecting increased advertising from political candidates and special interest groups during the "on year" of the two-year political advertising cycle. Our political advertising revenue also increased due to additional advertising related to a special election to recall the Governor of Wisconsin, where we have three television stations. Retransmission consent revenue increased $6.7 million, or 66%, to $16.8 million in the 2012 six-month period compared to the 2011 six-month period primarily due to the improved terms of our retransmission contracts compared to the terms in effect during the 2011 six-month period. A significant portion of our retransmission consent contracts expired on December 31, 2011 and we were able to renew substantially all of these contracts under terms more favorable to Gray, which resulted in increased revenue in the 2012 six-month period compared to the 2011 six-month period. Local advertising revenue increased approximately $2.7 million, or 3%, to $94.3 million. National advertising revenue increased approximately $0.9 million, or 3%, to $27.3 million. Internet advertising revenue increased $2.9 million, or 32%, to $12.1 million. Local and national advertising increased due to increased spending by advertisers in a gradually improving economic environment. While our internet advertising revenue has also benefited from an improved economy, we continue to focus on and invest resources into our internet sales efforts, which have also resulted in increased internet revenue. In addition, local and national net advertising revenue was positively influenced by the broadcast of the 2012 Super Bowl on our ten primary NBC channels, earning us approximately $0.8 million, an increase of approximately $0.6 million compared to the broadcast of the 2011 Super Bowl on our one primary FOX-affiliated channel and four secondary digital FOX-affiliated channels, which earned us approximately $0.2 million. Our five largest nonpolitical advertising categories on a combined local and national basis by customer type for the 2012 six-month period demonstrated the following changes in revenue during the 2012 six-month period compared to the 2011 six-month period: automotive increased 14%; medical increased 11%; restaurant increased 1%; communications increased 9%; and furniture and appliances increased 4%. Other revenue increased $1.5 million, or 38%, to $5.5 million in the 2012 six-month period compared to the 2011 six-month period due primarily to the receipt of certain copyright royalty payments. If any similar copyright royalty payments are received in future periods, they are likely to recur in lower amounts. We earned consulting revenue of $1.3 million and $1.1 million in the 2012 and 2011 six-month periods, respectively, from our agreement with Young.

Broadcast expenses. Broadcast expenses (before depreciation, amortization and gain on disposal of assets) increased $7.5 million, or 8%, to $103.6 million in the 2012 six-month period, due primarily to an increase in compensation expense of $3.9 million and non-compensation expense of $3.5 million. Compensation expense increased primarily due to increases in salaries, incentive compensation and pension expenses. Non-compensation expense increased primarily due to an increase in programing costs, other professional services and national sales commissions.

Corporate and administrative expenses. Corporate and administrative expenses (before depreciation, amortization and gain on disposal of assets) increased $0.3 million, or 5%, to $6.7 million for the 2012 six-month period. The increase was due primarily to an increase in compensation expense of $0.5 million, partially offset by a decrease in non-compensation expense of $0.2 million. Compensation expense increased primarily due to increases in salaries, incentive compensation and stock-based compensation expense. We recorded non-cash stock-based compensation expense during the six-month periods ended June 30, 2012 and 2011 of $154,000 and $68,000, respectively. Non-cash stock based compensation expense increased due to the grant of additional equity incentive awards during the 2012 six-month period.

Depreciation. Depreciation of property and equipment decreased $2.0 million, or 15%, to $11.6 million for the 2012 six-month period. Depreciation decreased due to a greater amount of property and equipment becoming fully depreciated compared to the amount of property and equipment being placed in service during the 2012 six-month period.

Gain on disposal of assets. Gain on disposal of assets decreased $0.4 million to $0.5 million during the 2012 six-month period as compared to the 2011 six-month period. On March 22, 2011, our primary broadcast tower for WEAU-TV, our station which serves the La Crosse – Eau Claire, Wisconsin market, collapsed during inclement weather. Our loss of property due to the tower collapse was covered by insurance. We recorded a gain on disposal on the old tower of $0.7 million and $0.8 million during the 2012 and 2011 six-month periods, respectively. The gains on the disposal of the WEAU-TV tower were partially offset by losses recorded upon the disposal of certain equipment in the ordinary course of business during the 2012 and 2011 six-month periods.

Interest expense. Interest expense decreased $1.1 million, or 3%, to $30.3 million for the 2012 six-month period. This decrease was attributable to a decrease in average interest rates and average principal outstanding. Our average debt balance was $828.3 million and $831.8 million during the 2012 and 2011 six-month periods, respectively. The average interest rates on our total debt balances were 7.0% and 7.1% during the 2012 and 2011 six-month periods, respectively.

Income tax expense or benefit. We recognized an income tax expense of $9.2 million and an income tax benefit of $0.3 million in the 2012 and 2011 six-month periods, respectively. For the 2012 and 2011 six-month periods, our effective income tax rate was 39.1% and 35.0%, respectively. We estimate our differences between taxable income or loss and recorded income or loss on an annual basis. Our tax provision for each quarter is based upon these full year projections which are revised each reporting period. These projections incorporate estimates of permanent differences between U.S. GAAP income and taxable income, state income taxes and adjustments to our liability for unrecognized tax benefits. Our effective income tax rate for the 2012 six-month period as compared to the 2011 six-month period increased primarily due to a larger reduction in our estimated liability for unrecognized tax benefits in the 2011 six-month period as compared to the 2012 six-month period.

Preferred stock dividends. Preferred stock dividends decreased $1.2 million, or 34%, to $2.4 million for the 2012 six-month period. The decrease in the dividend was due to fewer shares of our Series D Perpetual Preferred Stock being outstanding during the 2012 six-month period compared to the 2011 six-month period.

Liquidity and Capital Resources

General

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

	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Net cash provided by operating activities	$ 45,107	$ 17,262
Net cash used in investing activities	(10,845)	(16,199)
Net cash used in financing activities	(11,411)	(3,037)
Increase (decrease) in cash	$ 22,851	$ (1,974)

	As of June 30, 2012	As of December 31, 2011
Cash	$ 28,041	$ 5,190
Long-term debt including current portion	$ 821,498	$ 832,233
Preferred stock, excluding unamortized original issue discount	$ 24,996	$ 24,841
Borrowing availability under our senior credit facility	$ 40,000	$ 31,000

Long-term Debt

Our senior credit facility consists of a revolving loan, which matures March 19, 2014, and a term loan, which matures December 31, 2014. Excluding accrued interest, the amount outstanding under our senior credit facility as of June 30, 2012 was comprised solely of a term loan balance of $460.6 million. Excluding accrued interest, the amount outstanding under our senior credit facility as of December 31, 2011 was $472.0 million comprised of a term loan balance of $463.0 and a revolving loan balance of $9.0 million. Our maximum borrowing availability is limited by our required compliance with certain restrictive covenants, including a first lien net leverage ratio covenant. As of June 30, 2012 and December 31, 2011, we were in compliance with all covenants required under our debt obligations.

As of June 30, 2012 and December 31, 2011, we had $365.0 million of our 10 $^1/_2$% senior secured second lien notes due 2015 (the “Notes”) outstanding. Our Notes mature on June 29, 2015.

As of June 30, 2012 and December 31, 2011, the interest rate on the balance outstanding under the senior credit facility was 3.7% and 3.8%, respectively. As of June 30, 2012 and December 31, 2011, the coupon interest rate and the yield on the Notes were 10.5% and 11.0%, respectively. The yield on the Notes exceeds the coupon interest rate because the Notes were issued with “original issue discount”.

As of June 30, 2012 and December 31, 2011, we had a deferred loan cost balance, net of accumulated amortization, of $3.3 million and $4.0 million, respectively, related to our senior credit facility. As of June 30, 2012 and December 31, 2011, we had a deferred loan cost balance, net of accumulated amortization, of $5.3 million and $6.1 million, respectively, related to our Notes.

Preferred Stock

As of June 30, 2012 and December 31, 2011, we had 259 shares of Series D Perpetual Preferred Stock outstanding. The Series D Perpetual Preferred Stock has a liquidation value of $100,000 per share, for a total liquidation value of $25.9 million as of June 30, 2012 and December 31, 2011. The Series D Perpetual Preferred Stock had a recorded value of $25.0 million and $24.8 million as of June 30, 2012 and December 31, 2011, respectively. The difference between the liquidation values and the recorded values was the unaccreted portion of the original issuance discount and issuance cost. Our accrued Series D Perpetual Preferred Stock dividend balances as of June 30, 2012 and December 31, 2011 were $15.9 million and $13.7 million, respectively.

Except for the payment of dividends in connection with certain repurchases of portions of the Series D Perpetual Preferred Stock, we have deferred the cash payment of dividends on our Series D Perpetual Preferred Stock since October 1, 2008. While three consecutive cash dividend payments with respect to the Series D Perpetual Preferred Stock remain unfunded, the dividend rate will remain at 17.0% per annum.

While any Series D Perpetual Preferred Stock dividend payments are in arrears, we are prohibited from repurchasing, declaring and/or paying any cash dividend with respect to any equity securities having liquidation preferences equivalent to or junior in ranking to the liquidation preference of the Series D Perpetual Preferred Stock, including our common stock and Class A common stock. We can provide no assurances as to when any future cash payments will be made on any accumulated and unpaid Series D Perpetual Preferred Stock dividends presently in arrears or that become in arrears in the future. The Series D Perpetual Preferred Stock has no mandatory redemption date but, pursuant to its terms, is redeemable by the Company at any time and may be redeemed at the stockholders' option on or after June 30, 2015. We have deferred cash dividends on our Series D Perpetual Preferred Stock and correspondingly suspended cash dividends on our common stock and Class A common stock to, among other things, reallocate cash resources and support our ability to pay interest costs and fees associated with our senior credit facility and Notes.

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

Net cash provided by operating activities was $45.1 million in the 2012 six-month period compared to $17.3 million in the 2011 six-month period. The increase in cash provided by operations was due primarily to an increase in revenue, while partially offset by increases in broadcast and corporate and administrative expenses.

Net cash used in investing activities was $10.8 million in the 2012 six-month period compared to net cash used in investing activities of $16.2 million for the 2011 six-month period. The decrease in cash used in investing activities was largely due to decreased spending for equipment.

Net cash used in financing activities in the 2012 six-month period was $11.4 million compared to $3.0 million in the 2011 six-month period. This increase in cash used was due primarily to an increase in repayments and a decrease in borrowings of long-term debt in the 2012 six-month period compared to the 2011 six-month period.

Liquidity

As of June 30, 2012, we are required to make at least $4.8 million in debt principal payments during the twelve months immediately following June 30, 2012. As of June 30, 2012, we estimate that we will make approximately $54.9 million in debt interest payments and $23.0 million in capital expenditures during the twelve months immediately following June 30, 2012. 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, and borrowings from time to time under our senior credit facility (or any such other credit facility as may be in place at the appropriate time) will be sufficient to fund these debt service obligations and estimated capital expenditures. We also presently believe that our future cash expected to be generated from operations and borrowing availability under our 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 December 31, 2014, which is the maturity date of our term loan.

Capital Expenditures

Capital expenditures in the 2012 and 2011 six-month periods were $11.6 million and $16.7 million, respectively. The 2011 six-month period included capital expenditures for high definition broadcast equipment for local programming including local news, while the 2012 six-month period did not contain as many comparable projects.

We anticipate that our capital expenditures for the remainder of 2012 will be approximately $11.4 million.

Other

We file a consolidated federal income tax return and such state or local tax returns as are required. Although we may earn taxable operating income in future years, as of June 30, 2012, we anticipate that through the use of our available loss carryforwards we will not pay significant amounts of federal or state income taxes in the next several years.

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

During the 2012 six-month period, we contributed $2.3 million to our pension plans. During the remainder of fiscal 2012, we expect to contribute an additional $4.6 million to our pension plans.

Critical Accounting Policies

The preparation of financial statements in conformity with U.S. GAAP requires management to make judgments and estimations that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. We consider our accounting policies relating to intangible assets and income taxes to be critical policies that require judgments or estimations in their application where variances in those judgments or estimations could make a significant difference to future reported results. These critical accounting policies and estimates are more fully disclosed in our 2011 Form 10-K.

Cautionary Note Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q (this “Quarterly Report”) contains “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933 and Section 21 E of the Securities Exchange Act of 1934. Forward-looking statements are all statements other than those of historical fact. When used in this Quarterly Report, the words “believes,” “expects,” “anticipates,” “estimates,” “will,” “may,” “should” and similar words and expressions are generally intended to identify forward-looking statements. Among other things, statements that describe our expectations regarding our results of operations, general and industry-specific economic conditions, future pension plan contributions 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 2011 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 June 30, 2012 has not materially changed since December 31, 2011. The market risk profile on December 31, 2011 is disclosed in our 2011 Form 10-K.

Item 4. Controls and Procedures

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

There were no changes in our internal control over financial reporting during the three-month period ended June 30, 2012 identified in connection with this evaluation that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1A. Risk Factors

Please refer to the information set out under the heading "Risk Factors" in Part I, Item 1A in our 2011 Form 10-K for a description of risk factors that we determined to be most material to our financial condition and results of operation. We do not believe there have been any material changes in these risk factors.

Item 6. Exhibits

10.1	Gray Television, Inc. 2007 Long Term Incentive Plan, as amended.
31.1	Rule 13(a) – 14(a) Certificate of Chief Executive Officer
31.2	Rule 13(a) – 14(a) Certificate of Chief Financial Officer
32.1	Section 1350 Certificate of Chief Executive Officer
32.2	Section 1350 Certificate of Chief Financial Officer
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

Table of Contents

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: August 3, 2012

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

Exhibit 10.1

GRAY TELEVISION, INC.

2007 LONG TERM INCENTIVE PLAN, As Amended Through May 30, 2012

Section 1. Establishment and Purpose.

Gray Television, Inc., a Georgia corporation (the "Company"), hereby establishes this long term incentive plan to be named the Gray Television, Inc. 2007 Long Term Incentive Plan (the "Plan") for certain Employees and Directors (as such terms are defined below in Section 2) of the Company and its subsidiaries. The purpose of this Plan is to encourage certain Employees and Directors of the Company, and of such subsidiaries of the Company as the committee administering the Plan designates, to acquire Common Stock of the Company or to receive monetary payments based on the value of such stock or based upon achieving certain goals on a basis mutually advantageous to such Employees and Directors and the Company and thus provide an incentive for continuation of the efforts of Employees and Directors for the success of the Company and for continuity of employment and service.

Section 2. Definitions.

Whenever used herein, the following terms shall have the respective meanings set forth below:

(a) **Act** means the Securities Exchange Act of 1934, as amended from time to time.

(b) **Award** means any Option, Stock Appreciation Right, Restricted Stock, or Performance Award granted under the Plan.

(c) **Award Agreement** means an agreement entered into by the Company and each Participant setting forth the terms and provisions applicable to Awards granted under this Plan.

(d) **Base Price** means, in the case of an Option or a Stock Appreciation Right, a price fixed by the Committee at which the Option or the Stock Appreciation Right may be exercised which shall not be less than 100% of the Fair Market Value of a share of Stock on the date of grant of such option or right.

(e) **Board** means the Board of Directors of the Company.

(f) **Change of Control** is defined in Section 14.

(g) **Code** means the Internal Revenue Code of 1986, as amended and in effect from time to time.

(h) **Committee** means a committee or subcommittee of the Board that shall administer the Plan, which committee or subcommittee shall consist of no fewer than two members, each of whom shall be a "nonemployee director" within the meaning of Rule 16b-3 (or any successor rule or regulation) promulgated under the Act, and an "outside director" within the meaning of Section 162(m)(4)(C)(i) of the Code.

(i) **Covered Employee** means a Participant who, as of the date of vesting and/or payout of an Award, as applicable, is one of the group of "covered employees," as defined in the regulations promulgated under Section 162(m) of the Code, or any successor statute.

(j) **Director** means any individual who is a member of the Board or board of directors of any member of the Group; provided, however, that any such member who is employed by any member of the Group shall be considered an Employee under this Plan.

(k) **Disability** means permanent and total disability as defined in Section 22(e)(3) of the Code, as determined by the Committee in good faith, upon receipt of and in reliance on sufficient competent medical advice.

(l) **Employee** means an employee (including officers and directors who are also employees) of any member of the Group.

(m) **Fair Market Value** means, for any particular date, (i) for any period during which the Stock shall not be listed for trading on a national securities exchange, but when prices for the Stock shall be reported by the National Market System of the National Association of Securities Dealers Automated Quotation System ("NASDAQ"), the last transaction price per share as quoted by the National Market System of NASDAQ, (ii) for any period during which the Stock shall not be listed for trading on a national securities exchange or its price reported by the National Market System of NASDAQ, but when prices for the Stock shall be reported by NASDAQ, the closing bid price as reported by the NASDAQ, (iii) for any period during which the Stock shall be listed for trading on a national securities exchange, the closing price per share of stock on such exchange as of the close of such trading day or (iv) the market price per share of Stock as determined by a nationally recognized investment banking firm selected by the Board of Directors determined in accordance with a reasonable valuation method as determined under Code Section 409A and the rules and regulations promulgated thereunder in the event neither (i), (ii) or (iii) above shall be applicable. If Market Price is to be determined as of a day when the securities markets are not open, the Market Price on that day shall be the Market Price on the preceding day when the markets were open.

(n) **Group** means the Company and every Subsidiary of the Company.

(o) **Option** means the right to purchase Stock at the Base Price for a specified period of time. For purposes of the Plan, an Option may be an "Incentive Stock Option" within the meaning of Section 422 of the Code, a "Nonqualified Stock Option," or any other type of stock option encompassed by the Code.

(p) **Participant** means any Employee or Director designated by the Committee to participate in the Plan.

(q) **Performance Award** means a right to receive a payment equal to the value of a unit or other measure as determined by the Committee based on performance during a Performance Period.

(r) **Performance-Based Exception** means the performance-based exception from the tax deductibility limitations of Section 162(m) of the Code.

(s) **Performance Period** means a period of not more than ten years established by the Committee during which certain performance goals set by the Committee are to be met.

(t) **Period of Restriction** means the period during which a grant of shares of Restricted Stock is restricted pursuant to Section 11 of the Plan.

(u) **Reporting Person** means a person subject to Section 16 of the Act.

(v) **Restricted Stock** means Stock granted pursuant to Section 11 of the Plan, but a share of such Stock shall cease to be Restricted Stock when the conditions to and limitations on transferability under Section 11 have been satisfied or have expired, respectively.

(w) **Retirement** (including Normal, Early, and Disability Retirement) means termination of employment with eligibility for normal, early or disability retirement benefits under the terms of the Gray Television, Inc. Pension Plan, as amended and in effect at the time of such termination of employment.

(x) **Stock** means the authorized and unissued shares of the Company's class A common stock and common stock or shares of the Company's class A common stock or common stock held in treasury or previously issued shares of class A common stock or common stock reacquired by the Company, including stock purchased on the open market. The Company's class A common stock and common stock are substantially similar except for differences in voting rights.

(y) **Stock Appreciation Right** or **SAR** means the right to receive a payment from the Company equal to the excess of the Fair Market Value of a share of Stock at the date of exercise over the Base Price. In the case of a Stock Appreciation Right which is granted in conjunction with an Option, the Base Price shall be the Option exercise price.

(z) **Subsidiary** means a subsidiary corporation as defined in Section 425 of the Code.

Section 3. Administration.

The Plan will be administered by the Committee. The determinations of the Committee shall be made in accordance with their judgment as to the best interests of the Company and its shareholders and in accordance with the purpose of the Plan. A majority of members of the Committee shall constitute a quorum, and all determinations of the Committee shall be made by a majority of its members. Any determination of the Committee under the Plan may be made without notice or meeting of the Committee, by a writing signed by a majority of the Committee members. Determinations, interpretations, or other actions made or taken by the Committee pursuant to the provisions of the Plan shall be final and binding and conclusive for all purposes and upon all persons whomsoever. The Committee shall have the authority to delegate administrative duties to one or more officers or Employees of the Company or Subsidiaries to the extent that such delegation would not jeopardize the Performance-Based Exception with respect to any Award or otherwise violate applicable law or exchange act rules.

Section 4. Shares Reserved Under the Plan.

There is hereby reserved for issuance under the Plan an aggregate of 6,000,000 shares of Stock with no more than 1,000,000 of the aggregate limit consisting of class A common stock. The above amounts include approximately 2,469,000 shares of Stock that were available for issuance under the 2002 Long Term Incentive Plan (the "2002 Plan"), and were transferred to the Plan, added to the reserved Stock and available for issuance to Participants under the Plan. No new Awards shall be made under the 2002 Plan as of the effective date of the Plan. Stock underlying Awards under the 2002 Plan that expire, are cancelled, or are forfeited after the effective date of the Plan may not be added back to the Plan maximum.

Stock underlying outstanding Options or Performance Awards will be counted against the Plan maximum while such Options or Performance Awards are outstanding. Shares underlying expired, canceled or forfeited Awards (except Restricted Stock) may be added back to the Plan maximum. When the exercise price of an Option is paid by delivery of shares of Stock, the number of shares available for issuance under the Plan shall continue to be reduced by the gross (rather than the net) number of shares issued pursuant to such exercise, regardless of the number of shares surrendered in payment. The full number of Stock Appreciation Rights granted that are to be settled in Common Stock shall be counted against the number of Shares available for award under the Plan, regardless of the number of Shares actually issued upon settlement of such Stock Appreciation Rights. Restricted Stock issued pursuant to the Plan will be counted against the Plan maximum while outstanding even while subject to restrictions.

Unless and until the Committee determines that an Award to a Covered Employee shall not be designed to comply with the Performance-Based Exception, the following rules shall apply to grants of such Awards under the Plan:

(a) **Stock Options:** The maximum aggregate number of shares of Stock that may be granted in the form of Options, pursuant to any Award granted in any one fiscal year to any one single Participant shall be 500,000 shares.

(b) **SARs:** The maximum aggregate number of shares of Stock that may be granted in the form of Stock Appreciation Rights, pursuant to any Award granted in any one fiscal year to any one single Participant shall be 500,000 shares.

(c) **Performance Awards:** The maximum aggregate payout (determined as of the end of the applicable performance period) with respect to Performance Awards granted in any one fiscal year to any one Participant shall be the greater of $1,000,000 or 500,000 shares.

If any Award is cancelled (or is amended in a way that is treated as a cancellation), the shares related to the cancelled Award shall count against the above maximum limitations for the applicable fiscal year.

Section 5. Participants.

Participants will consist of such Employees and Directors of the Company or any designated subsidiary as the Committee in its sole discretion determines have a major impact on the success and future growth and profitability of the Company. Designation of a Participant in any year shall not require the Committee to designate such person to receive an Award in any other year or to receive the same type or amount of Award as granted to the Participant in any other year or as granted to any other Participant in any year. The Committee shall consider such factors as it deems pertinent in selecting Participants and in determining the type and amount of their respective Awards. Only key Employees may be granted Incentive Stock Options under the Plan.

Section 6. Types of Awards.

The following Awards may be granted under the Plan: (a) Incentive Stock Options; (b) Nonqualified Stock Options; (c) Stock Appreciation Rights; (d) Restricted Stock; and (e) Performance Awards; all as described below. Except as specifically limited herein, the Committee shall have complete discretion in determining the type and number of Awards to be granted to any Participant, and the terms and conditions which attach to each Award, which terms and conditions need not be uniform as between different participants. All Awards shall be in writing.

Section 7. Date of Granting Awards.

The date of grant of an Award (the “Award Date”) is the date the Committee makes the Award to a Participant by fixing the material terms of the Award. Promptly after each Award Date, the Company shall notify the Participant of the grant of the Award, and shall hand deliver or mail to the Participant an Award Agreement, duly executed by and on behalf of the Company, with the request that the Participant execute and return the Award Agreement within thirty days after the date of mailing or delivery by the Company of the Award Agreement to the Participant. If the Participant shall fail to execute and return the written Award Agreement within said thirty day period, his or her Award shall be automatically terminated, except that if the Participant dies within said thirty day period such Award Agreement shall be effective notwithstanding the fact that it has not been signed prior to death.

Section 8. Incentive Stock Options.

Incentive Stock Options shall consist of options to purchase shares of Stock at purchase prices determined by the Committee but not less than 100% of the Fair Market Value of the shares of Stock on the date of grant of the Option. Said purchase price may be paid by check or, in the discretion of the Committee, by the delivery of shares of Stock then owned by the Participant. Incentive Stock Options will be exercisable as provided in the Award Agreement and, except as provided below, will terminate not later than three months after termination of employment for any reason other than death or disability. In the event termination of employment occurs as a result of death or Disability, such an option will be exercisable for 12 months after such termination. If the optionee dies within 12 months after termination of employment by reason of Disability, then the period of exercise following death shall be the remainder of the 12-month period, or three months, whichever is longer. If the optionee dies within three months after termination of employment for any other reason, then the period of exercise following death shall be three months. However, in no event shall any Incentive Stock Option be exercised more than ten years after its grant. Leaves of absence granted by the Company for military service, illness, and transfers of employment between the Company and any subsidiary thereof shall not constitute termination of employment. The aggregate Fair Market Value (determined as of the time an Option is granted) of the stock with respect to which an Incentive Stock Option is exercisable for the first time during any calendar year (under all option plans of the Company and its subsidiary corporations) shall not exceed $100,000 per participant.

Section 9. Nonqualified Stock Options.

Nonqualified Stock Options shall consist of nonqualified options to purchase shares of Stock at purchase prices determined by the Committee but not less than 100% of the fair market value of the shares of Stock on the date of grant of the Option. The purchase price may be paid by check or, in the discretion of the Committee, by the delivery of shares of Stock then owned by the Participant. The Committee shall determine the vesting and forfeiture provisions of the Nonqualified Stock Options and shall set forth such terms in the Award Agreement. Unless determined otherwise in the Award Agreement, all Options shall terminate three months after termination of employment or service for any reason other than death, Retirement or Disability. Unless determined otherwise in the Award Agreements, in the event termination of employment or service occurs as a result of death, Retirement or Disability, such an Option will terminate 12 months after such termination provided however, if the optionee dies within 12 months after termination of employment or service by Retirement or Disability, then the period of exercise following death shall be three months. In no event shall any Option be exercised more than ten years after its date of grant. Leaves of absence granted to Employees by the Company or leaves of absence taken by Directors for military service, illness, and transfers of employment between the Company and any subsidiary thereof, as applicable, shall not constitute termination of employment or service. The Committee shall have the right to determine at the time the Option is granted whether shares issued upon exercise of a Nonqualified Stock Option shall be subject to other restrictions, and if so, the nature of the restrictions.

Section 10. Stock Appreciation Rights.

Stock Appreciation Rights may be granted which, at the discretion of the Committee, may be exercised (1) in lieu of exercise of an Option, or (2) independent of an Option. If the Option referred to in (1) or (2) above qualified as an Incentive Stock Option pursuant to Section 422 of the Code, the related SAR shall comply with the applicable provisions of the Code and the regulations issued thereunder. The Base Price or grant price of each SAR shall equal the Fair Market Value of the Stock on the date of grant of the SAR. At the time of grant, the Committee may establish, in its sole discretion, any other conditions on exercise of an SAR. At the discretion of the Committee, payment for SARs may be made in cash or Stock, or in a combination thereof. The following will apply upon exercise of an SAR:

(a) Exercise of SARs in Lieu of Exercise of Options. SARs exercisable in lieu of Options may be exercised for all or part of the shares of Stock subject to the related Option upon the exercise of the right to exercise an equivalent number of Options. A SAR may be exercised only with respect to the shares of Stock for which its related Option is then exercisable. Upon exercise of a SAR in lieu of exercise of an Option, shares of Stock equal to the number of SARs exercised shall no longer be available for exercise under the related Option (and when a share of Stock is purchased under the related Option, the related SAR shall similarly no longer be available for exercise).

(b) Exercise of SARs Independent of Options. SARs exercisable independent of Options may be exercised upon whatever terms and conditions the Committee, in its sole discretion, imposes upon the SARs.

Section 11. Restricted Stock.

Restricted Stock shall consist of Stock issued or transferred under the Plan (other than upon exercise of Options or as Performance Awards) at any purchase price less than the Fair Market Value thereof on the date of issuance or transfer, or as a bonus. In the case of any Restricted Stock:

(a) The purchase price, if any, will be determined by the Committee.

(b) Restricted Stock may be subject to (i) restrictions on the sale or other disposition thereof; (ii) rights of the Company to reacquire such Restricted Stock at the purchase price, if any, originally paid therefor upon termination of the Employee’s employment or Director’s service within specified periods, (iii) representation by the Employee or Director that he or she intends to acquire Restricted Stock for investment and not for resale, and (iv) such other restrictions, conditions and terms as the Committee deems appropriate.

(c) The Participant shall be entitled to all dividends paid with respect to Restricted Stock during the Period of Restriction and shall not be required to return any such dividends to the Company in the event of the forfeiture of the Restricted Stock.

(d) The Participant shall be entitled to vote the Restricted Stock during the Period of Restriction.

(e) The Committee shall determine whether Restricted Stock is to be delivered to the Participant with an appropriate legend imprinted on the certificate or if the shares are to be deposited in escrow pending removal of the restrictions.

Section 12. Performance Awards.

Performance Awards shall consist of Stock, stock units, cash based units or a combination thereof, to be issued without any payment therefor, in the event that certain performance goals established by the Committee are achieved during the Performance Period. The goals established by the Committee may be based upon company-wide performance or upon operating unit performance or a combination thereof and may include return on average total capital employed, earnings per share, return on shareholders' equity, market share, growth in Broadcast Cash Flow, growth in Broadcast Cash Flow Less Cash Corporate Expenses, growth in EBITDA, growth in total revenue and/or specified components of total revenue, reduction in or the limitation in the growth of specified operating expenses, attainment of and/or maintenance of specified operating margins, attainment of and/or maintenance of specified weighted average costs of debt, attainment of and/or maintenance of specified weighted costs of capital, operating income (loss), income (loss) from continuing operations, pretax income from continuing operations, and, for a Performance Award that the Committee determines shall not be designed to comply with the Performance Based Exception, such other goals as may be established by the Committee. Unless and until the Committee determines that a Performance Award to a Covered Employee shall not be designed to comply with the Performance-Based Exception, any performance goal related to a Performance Award must be established in writing by the Committee at a time when the outcome of the performance goal is substantially uncertain and not later than the earlier of (1) 90 days after the commencement of the period of service to which the performance goal relates or (2) 25 percent of the period of service to which the performance goal relates has elapsed. In the event the minimum corporate goal is not achieved at the conclusion of the Performance Period, no payment shall be made to the Participant. Actual payment of the Performance Award earned shall be a single sum and in cash or in Stock or in a combination of both, as the Committee in its sole discretion determines. If Stock is used, the Participant shall not have the right to vote and receive dividends until the goals are achieved and the actual shares are issued. In the event a Performance Award of stock units is paid in cash instead of Stock, the number of shares reserved for issuance hereunder and the number of shares which may be granted in the form of Performance Awards shall be reduced as if shares had been issued**.** The Committee shall certify in writing that any performance goals and any other material terms of a Performance Award have been achieved prior to the actual payment of the Performance Award. All Performance Awards shall be paid in full to the Participant no later than the 15th day of the third month following the end of the first calendar year in which the Performance Period ends or such Awards are no longer subject to a substantial risk of forfeiture.

Section 13. Adjustment Provisions.

In the event of any change in corporate capitalization, such as a stock split, stock dividend or reclassification, or a corporate transaction, such as any merger, consolidation, separation, including a spin-off, or other distribution of stock or property of the Company, any reorganization (whether or not such reorganization comes within the definition of such term in Code Section 368) or any partial or complete liquidation of the Company, such adjustment shall be made in the number and class of Stock which may be delivered under Section 4, in the number and class of and/or price of Shares subject to outstanding Awards granted under the Plan, and in the Award limits set forth in Section 4 as may be determined to be appropriate and equitable by the Committee, in its sole discretion, to prevent dilution or enlargement of rights; provided, however, that the number of shares of Stock subject to any Award shall always be a whole number. The Committee shall not make any adjustment pursuant to this Section 13 that would cause an Award that is otherwise exempt from Code Section 409A to become subject to Section 409A; or that would cause an Award that is subject to Code Section 409A to fail to satisfy the requirements of Code Section 409A.

Section 14. Change of Control.

Notwithstanding any other provision of this Plan, upon a Change of Control, the Committee may make such adjustments with respect to Awards and take such other action as it deems advisable, including, without limitation, the substitution of new Awards, or the adjustment of outstanding Awards, or the termination of outstanding Awards, the acceleration of Awards, the removal of restrictions on outstanding Awards, or the termination of outstanding Awards in exchange for the cash value determined in good faith by the Committee of the vested and/or unvested portion of the Award. Any adjustment pursuant to this Section 14 may provide, in the Committee's discretion, for the elimination without payment therefore of any fractional shares that might otherwise become subject to any Award, but except as set forth in this Section 14 may not otherwise diminish the then value of the Award. The foregoing adjustment and the manner of application of the foregoing provisions shall be determined by the Committee in its sole discretion and to the extent permitted under Section 409A of the Code and the regulations thereunder.

For purposes of this Plan, a "Change of Control" shall occur if (i) any Person (other than the Company or a Permitted Holder) is or becomes the "beneficial owner" (as defined in Rule 13d-3 under the Act), directly or indirectly, of securities of the Company which represent forty-five percent (45%) or more of the combined voting power of the Company's then outstanding securities; (ii) during any period of two (2) consecutive years individuals who at the beginning of such period constitute the Board cease for any reason to constitute at least a majority thereof, unless the election, or the nomination for election, by the Company's shareholders, of each new director is approved by a vote of at least two-thirds (2/3) of the directors then still in office who were directors at the beginning of the period but excluding any individual whose initial assumption of office occurs as a result of either an actual or threatened election contest (as such term is used in Rule 14a-11 of Regulation 14A promulgated under the Act) or other actual or threatened solicitation of proxies or consents by or on behalf of a person other than the Board; (iii) there is consummated any consolidation or merger of the Company in which the Company is not the continuing or surviving corporation or pursuant to which shares of the Company's Stock are converted into cash, securities, or other property, other than a merger of the Company in which the holders of the Company's Stock immediately prior to the merger have the same proportionate ownership of common stock of the surviving corporation immediately after the merger; (iv) there is consummated any consolidation or merger of the Company in which the Company is the continuing or surviving corporation in which the holders of the Company's Stock immediately prior to the merger do not own fifty-one percent (51%) or more of the combined voting power of the surviving corporation immediately after the merger; (v) there is consummated any sale, lease, exchange, or other transfer (in one transaction or a series of related transactions) of all, or substantially all, of the assets of the Company, or (vi) the shareholders of the Company approve any plan or proposal for the liquidation or dissolution of the Company. For purposes of the above definition, a "Permitted Holder" means (i) each of J. Mack Robinson and Robert S. Prather, Jr.; (ii) their spouses and lineal descendants; (iii) in the event of the incompetence or death or any of the Persons described in clauses (i) and (ii), such Person's estate, executor, administrator, committee and other personal representative; (iv) any trusts created for the benefit of the Persons described in clause (i) or (ii); (v) any person controlled by any of the Persons described in clause (i), (ii), (iii) or (iv); or (vi) any group of Persons (as defined in the Securities Exchange Act of 1934, as amended) in which the Persons described in clauses (i) — (v), individually or collectively, control such group. For purposes of this definition, "control," as used with respect to any Person, shall mean the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether through ownership of voting securities or by agreement or otherwise.

Section 15. Nontransferability.

Each Award granted under the Plan to a Participant shall not be transferable otherwise than by will or the laws of descent and distribution, and shall be exercisable, during the Participant's lifetime, only by the Participant. In the event of the death of a Participant, exercise of payment shall be made only:

(a) By or to the executor or administrator of the estate of the deceased Participant or the person or persons to whom the deceased Participant's rights under the Award shall pass by will or the laws of descent and distribution; and

(b) To the extent that the deceased Participant was entitled thereto at the date of his death, provided, however, that any otherwise applicable six-month holding period shall not be required for exercise by or payment to an executor or administrator of the estate of a deceased Reporting Person.

Section 16. Withholding.

The Company shall have the power and the right to deduct or withhold, or require a Participant to remit to the Company, an amount sufficient to satisfy Federal, state, and local taxes, domestic or foreign, required by law or regulation to be withheld with respect to any taxable event arising as a result of this Plan.

With respect to withholding required upon the exercise of Options or SARs, upon the lapse of restrictions on Restricted Stock, or upon any other taxable event arising as a result of Awards granted hereunder, Participants may elect, subject to the approval of the Committee, to satisfy the withholding requirement, in whole or in part, by having the Company withhold Shares having a Fair Market Value on the date the tax is to be determined equal to the minimum statutory total tax which could be imposed on the transaction. All such elections shall be irrevocable, made in writing, signed by the Participant, and shall be subject to any restrictions or limitations that the Committee, in its sole discretion, deems appropriate.

Section 17. No Right to Employment or Service

A Participant's right, if any, to continue to serve the Company and its subsidiaries as an Employee or Director or otherwise, shall not be enlarged or otherwise affected by his or her designation as a Participant under the Plan.

Section 18. Amendment of the Plan

The Board of Directors may amend the Plan from time to time or terminate the Plan at any time. However, no action authorized by this paragraph shall reduce the amount of any existing Award or change the terms and conditions thereof without the Participant's consent except as specifically provided herein under Sections 13 and 14 or as otherwise required by law. Except for adjustments in accordance with Section 13, no amendment of the Plan or other similar actions, shall, without approval of the shareholders of the Company (a) increase the total number of shares which may be issued under the Plan or increase the amount of type of Awards that may be granted under the Plan; (b) change the minimum purchase price, if any, of shares of Stock which may be made subject to Awards under the Plan; or (c) modify the requirements as to eligibility for Awards under the Plan. No Award shall be granted more than ten years after the effective date of the Plan. Except in connection with a corporate transaction or event described in Section 13 of this Plan, the terms of outstanding Awards may not be amended to reduce the Base Price, or cancel outstanding Options or Stock Appreciation Rights in exchange for cash, other Awards or Options or Stock Appreciation Rights with a Base Price that is less than the Base Price of the original Options or Base Price of the original Stock Appreciation Rights, as applicable, without shareholder approval. The foregoing sentence is intended to prohibit the repricing of “underwater” Options and Stock Appreciation Rights and will not be construed to prohibit the adjustments provided for in Section 13 of this Plan.

Section 19. Securities Requirements

With respect to insiders, transactions under this Plan are intended to comply with all applicable conditions or Rule 16b-3 or its successors under the 1934 Act. To the extent any provision of the plan or action by the Board or Committee fails to so comply, it shall be deemed null and void, to the extent permitted by law and deemed advisable by the Board or Committee.

The Committee may suspend the exercise or payment of any Award so long as it determines that securities exchange listing or registration or qualification under any securities laws is required in connection therewith and has not been completed on terms acceptable to the Committee.

Section 20. Effective Date of Plan and Shareholder Approval.

The Plan shall be effective on May 2, 2007, provided the approval of the shareholders of the Company is obtained. If the shareholders do not approve the Plan, the Plan shall not go into effect and no Awards shall be made under the Plan.

Section 21. Governing Law.

Except to the extent preempted by any applicable federal law, the Plan will be construed and administered in accordance with the laws of the State of Georgia, without reference to the principles of conflicts of law. All Incentive Stock Options to be granted hereunder are intended to comply with Code Section 422, and all provisions of the Plan and all Incentive Stock Options granted hereunder must be construed in such manner as to effectuate that intent. All Awards to be granted hereunder are intended to comply with the exemptions or deferred compensation requirements of Code Section 409A, and all provisions of the Plan and all Awards granted hereunder must be construed in such a manner as to effectuate that intent.

EXHIBIT 31.1

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: August 3, 2012

By: /s/ Hilton H. Howell, Jr.
Hilton H. Howell, Jr.
Vice-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: August 3, 2012

By: /s/ James C. Ryan
James C. Ryan
Senior 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 June 30, 2012 (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: August 3, 2012

/s/ Hilton H. Howell, Jr.

Hilton H. Howell, Jr.
Vice-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 June 30, 2012 (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: August 3, 2012

/s/ James C. Ryan
James C. Ryan,
Senior 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.