

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 March 31, 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)  
51,406,776 shares outstanding as of April 30, 2012

Class A Common Stock (No Par Value)  
5,753,020 shares outstanding as of April 30, 2012

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**PART I. FINANCIAL INFORMATION**

**Item 1. Financial Statements**

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

|  | <u>March 31,</u><br><u>2012</u> | <u>December 31,</u><br><u>2011</u> |
|--|---------------------------------|------------------------------------|
| <b>Assets:</b>   |                                 |                                    |
| Current assets:  |                                 |                                    |
| Cash   | \$ 15,111                       | \$ 5,190                           |
| Accounts receivable, less allowance for doubtful accounts of \$2,283 and \$2,314, respectively | 57,766                          | 62,085                             |
| Current portion of program broadcast rights, net   | 4,978                           | 7,359                              |
| Deferred tax asset   | 2,762                           | 2,762                              |
| Prepaid and other current assets   | <u>4,087</u>                    | <u>1,959</u>                       |
| Total current assets   | 84,704                          | 79,355                             |
| Property and equipment, net  | 135,406                         | 137,099                            |
| Deferred loan costs, net   | 9,342                           | 10,115                             |
| Broadcast licenses   | 818,981                         | 818,981                            |
| Goodwill   | 170,522                         | 170,522                            |
| Other intangible assets, net   | 693                             | 712                                |
| Investment in broadcasting company   | 13,599                          | 13,599                             |
| Other  | <u>3,299</u>                    | <u>3,597</u>                       |
| Total assets   | <u>\$1,236,546</u>              | <u>\$1,233,980</u>                 |

See notes to condensed consolidated financial statements.

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

|  | March 31,<br>2012 | December 31,<br>2011 |
|--|-------------------|----------------------|
| <b>Liabilities and stockholders' equity:</b>   |                   |                      |
| Current liabilities:   |                   |                      |
| Accounts payable   | \$ 1,742          | \$ 2,045             |
| Employee compensation and benefits   | 10,170            | 11,619               |
| Accrued interest   | 17,422            | 7,939                |
| Other accrued expenses   | 6,874             | 6,725                |
| Federal and state income taxes   | 2,735             | 2,794                |
| Current portion of program broadcast obligations   | 7,780             | 10,124               |
| Deferred revenue   | 4,283             | 3,468                |
| Current portion of long-term debt  | 4,823             | 4,823                |
| Total current liabilities  | 55,829            | 49,537               |
| Long-term debt, less current portion   | 817,543           | 827,410              |
| Program broadcast obligations, less current portion  | 775               | 1,036                |
| Deferred income taxes  | 160,150           | 157,832              |
| Long-term deferred revenue   | 908               | 1,061                |
| Long-term accrued dividends  | 14,818            | 13,717               |
| Accrued pension costs  | 35,296            | 34,417               |
| Other  | 1,142             | 1,176                |
| Total liabilities  | 1,086,461         | 1,086,186            |
| Commitments and contingencies (Note 7)   |                   |                      |
| Preferred stock, no par value; cumulative; redeemable; designated 1.00 shares, issued and outstanding 0.26 shares (\$25,921 aggregate liquidation value) | 24,919            | 24,841               |
| Stockholders' equity:  |                   |                      |
| Common stock, no par value; authorized 100,000 shares, issued 56,061 shares and 56,057 shares, respectively  | 479,890           | 479,869              |
| Class A common stock, no par value; authorized 15,000 shares, issued 7,332 shares  | 15,321            | 15,321               |
| Accumulated deficit  | (291,130)         | (293,322)            |
| Accumulated other comprehensive loss, net of income tax benefit  | (16,402)          | (16,402)             |
|  | 187,679           | 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   | 125,166           | 122,953              |
| Total liabilities, preferred stock and stockholders' equity  | \$1,236,546       | \$1,233,980          |

See notes to condensed consolidated financial statements.

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

|  | Three Months Ended |                   |
|--|--------------------|-------------------|
|  | March 31,          |                   |
|  | 2012               | 2011              |
| Revenue (less agency commissions)  | \$ 80,674          | \$ 69,742         |
| Operating expenses before depreciation, amortization and loss (gain) on disposal of assets, net: |                    |                   |
| Broadcast  | 50,772             | 48,179            |
| Corporate and administrative   | 3,106              | 3,038             |
| Depreciation   | 5,891              | 6,998             |
| Amortization of intangible assets  | 19                 | 34                |
| Loss (gain) on disposals of assets, net  | 65                 | (13)              |
| Operating expenses   | <u>59,853</u>      | <u>58,236</u>     |
| Operating income   | 20,821             | 11,506            |
| Other income (expense):  |                    |                   |
| Miscellaneous income, net  | 2                  | —                 |
| Interest expense   | <u>(15,163)</u>    | <u>(16,000)</u>   |
| Income (loss) before income taxes  | 5,660              | (4,494)           |
| Income tax expense (benefit)   | <u>2,289</u>       | <u>(1,411)</u>    |
| Net income (loss)  | 3,371              | (3,083)           |
| Preferred stock dividends (includes accretion of issuance cost of \$77 and \$118, respectively)  | <u>1,179</u>       | <u>1,789</u>      |
| Net income (loss) available to common stockholders   | <u>\$ 2,192</u>    | <u>\$ (4,872)</u> |
| Basic and diluted per share information:   |                    |                   |
| Net income (loss) available to common stockholders   | <u>\$ 0.04</u>     | <u>\$ (0.09)</u>  |
| Weighted average shares outstanding  | <u>57,148</u>      | <u>57,112</u>     |
| Dividends declared per common share  | <u>\$ —</u>        | <u>\$ —</u>       |

See notes to condensed consolidated financial statements.

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

|   | Class A<br>Common Stock |                  | Common Stock      |                  | Accumulated<br>Deficit | Class A<br>Treasury Stock |                   | Common<br>Treasury Stock |                   | Accumulated<br>Other<br>Comprehensive<br>Loss | Total            |
|---|-------------------------|------------------|-------------------|------------------|------------------------|---------------------------|-------------------|--------------------------|-------------------|---|------------------|
|   | Shares                  | Amount           | Shares            | Amount           |                        | Shares                    | Amount            | Shares                   | Amount            |   |                  |
| Balance at<br>December 31,<br>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  | —                       | —                | —                 | —                | 3,371                  | —                         | —                 | —                        | —                 | —   | 3,371            |
| Preferred stock<br>dividends<br>(including<br>accretion of<br>original<br>issuance costs) | —                       | —                | —                 | —                | (1,179)                | —                         | —                 | —                        | —                 | —   | (1,179)          |
| Issuance of<br>common<br>stock: 401(k)<br>plan  | —                       | —                | 3,526             | 7                | —                      | —                         | —                 | —                        | —                 | —   | 7                |
| Share-based<br>compensation   | —                       | —                | —                 | 14               | —                      | —                         | —                 | —                        | —                 | —   | 14               |
| Balance at<br>March 31,<br>2012   | <u>7,331,574</u>        | <u>\$ 15,321</u> | <u>56,060,596</u> | <u>\$479,890</u> | <u>\$(291,130)</u>     | <u>(1,578,554)</u>        | <u>\$(22,398)</u> | <u>(4,654,750)</u>       | <u>\$(40,115)</u> | <u>\$ (16,402)</u>                            | <u>\$125,166</u> |

See notes to condensed consolidated financial statements.

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

|  | Three Months Ended<br>March 31, |                 |
|--|---------------------------------|-----------------|
|  | 2012                            | 2011            |
| <b>Operating activities</b>  |                                 |                 |
| Net income (loss)  | \$ 3,371                        | \$ (3,083)      |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities:     |                                 |                 |
| Depreciation   | 5,891                           | 6,998           |
| Amortization of intangible assets  | 19                              | 34              |
| Amortization of deferred loan costs  | 753                             | 718             |
| Amortization of original issue discount on 10 1/2% senior secured second lien notes due 2015 | 338                             | 338             |
| Amortization of restricted stock awards  | 14                              | 34              |
| Amortization of program broadcast rights   | 2,758                           | 3,833           |
| Payments on program broadcast obligations  | (2,795)                         | (3,794)         |
| Common stock contributed to 401(k) plan  | 7                               | 8               |
| Deferred income taxes  | 2,289                           | (1,411)         |
| Loss (gain) on disposal of assets, net   | 65                              | (13)            |
| Other  | 627                             | 966             |
| Changes in operating assets and liabilities:   |                                 |                 |
| Receivables  | 4,319                           | 6,402           |
| Other current assets   | (2,003)                         | (1,477)         |
| Accounts payable   | (206)                           | (3,017)         |
| Other current liabilities  | 2,066                           | (1,223)         |
| Accrued interest   | 9,483                           | 9,547           |
| Net cash provided by operating activities  | <u>26,996</u>                   | <u>14,860</u>   |
| <b>Investing activities</b>  |                                 |                 |
| Purchases of property and equipment  | (6,839)                         | (9,198)         |
| Proceeds from asset sales  | 24                              | 17              |
| Other  | (54)                            | (132)           |
| Net cash used in investing activities  | <u>(6,869)</u>                  | <u>(9,313)</u>  |
| <b>Financing activities</b>  |                                 |                 |
| Repayments of borrowings on long-term debt   | (10,206)                        | (1,206)         |
| Net cash used in financing activities  | <u>(10,206)</u>                 | <u>(1,206)</u>  |
| Net increase in cash   | 9,921                           | 4,341           |
| Cash at beginning of period  | 5,190                           | 5,431           |
| Cash at end of period  | <u>\$ 15,111</u>                | <u>\$ 9,772</u> |

See notes to condensed consolidated financial statements.

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

**1. Basis of Presentation**

The accompanying condensed consolidated balance sheet 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 March 31, 2012 and for the periods ended March 31, 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, such financial statements do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. 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 period ended, March 31, 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 Cyclicity*

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) available 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 periods ended March 31, 2012 and 2011 (in thousands):

|   | <b>Three Months Ended</b> |               |
|---|---------------------------|---------------|
|   | <b>March 31,</b>          |               |
|   | <b>2012</b>               | <b>2011</b>   |
| Weighted-average shares outstanding-basic   | 57,148                    | 57,112        |
| Stock options and restricted stock          | —                         | —             |
| Weighted-average shares outstanding-diluted | <u>57,148</u>             | <u>57,112</u> |



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

|  | Three Months Ended |              |
|--|--------------------|--------------|
|  | March 31,          |              |
|  | 2012               | 2011         |
| Potentially dilutive common shares outstanding at end of period: |                    |              |
| Employee stock options   | 970                | 1,004        |
| Restricted stock   | 10                 | 33           |
| Total  | <u>980</u>         | <u>1,037</u> |

*Accumulated Other Comprehensive Loss*

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

|   | March 31,<br>2012 | December 31,<br>2011 |
|---|-------------------|----------------------|
| Accumulated balances of items included in accumulated other comprehensive loss: |                   |                      |
| Increase in pension liability   | \$(26,889)        | \$ (26,889)          |
| Income tax benefit  | <u>(10,487)</u>   | <u>(10,487)</u>      |
| Accumulated other comprehensive loss  | <u>\$(16,402)</u> | <u>\$ (16,402)</u>   |

Our comprehensive income (loss) for the three-month periods ended March 31, 2012 and 2011 consists entirely of net income (loss). Therefore, a consolidated statement of comprehensive income (loss) is not presented for the three-month periods ended March 31, 2012 and 2011.

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### *Property and Equipment*

Property and equipment are carried at cost. Depreciation is computed principally by the straight-line method. Buildings, towers, improvements and equipment are generally depreciated over estimated useful lives of approximately 35 years, 20 years, 10 years and 5 years, respectively. 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):

|  | <u>March 31,</u><br><u>2012</u> | <u>December 31,</u><br><u>2011</u> |
|--|---------------------------------|------------------------------------|
| <b>Property and equipment:</b>           |                                 |                                    |
| Land                                     | \$ 23,478                       | \$ 23,451                          |
| Buildings and improvements               | 53,420                          | 53,322                             |
| Equipment                                | <u>310,425</u>                  | <u>308,454</u>                     |
|  | 387,323                         | 385,227                            |
| Accumulated depreciation                 | <u>(251,917)</u>                | <u>(248,128)</u>                   |
| <b>Total property and equipment, net</b> | <u><u>\$ 135,406</u></u>        | <u><u>\$ 137,099</u></u>           |

### *Allowance for Doubtful Accounts*

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

### *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 three months ended March 31, 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 March 31, 2011 in order to conform to the presentation as of March 31, 2012. The reclassifications did not change our total current liabilities as of March 31, 2011. Certain reclassifications have been made within the operating and investing sections of our condensed consolidated statement of cash flows for the three months ended March 31, 2011 in order to conform to the presentation for the three months ended March 31, 2012. The reclassifications did not change our net cash provided by operating activities or net cash used in investing activities for the period ended March 31, 2011.

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## 2. Long-term Debt

Long-term debt consists of the following (in thousands):

|   | March 31,<br>2012 | December 31,<br>2011 |
|---|-------------------|----------------------|
| Long-term debt including current portion:                             |                   |                      |
| Senior credit facility  | \$461,763         | \$ 471,968           |
| 10 1/2% senior secured second lien notes at liquidation value         | 365,000           | 365,000              |
| Total long-term debt including current portion at liquidation value   | 826,763           | 836,968              |
| Less unamortized discount on 10 1/2% senior secured second lien notes | (4,397)           | (4,735)              |
| Total long-term debt at recorded value                                | <u>\$822,366</u>  | <u>\$ 832,233</u>    |
| 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 March 31, 2012 was comprised solely of a term loan balance of \$461.8 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 March 31, 2012 and December 31, 2011, we were in compliance with all covenants required under our debt obligations.

As of March 31, 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 March 31, 2012 and December 31, 2011, the interest rate on the balance outstanding under the senior credit facility was 3.8%. As of March 31, 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 March 31, 2012 and December 31, 2011, we had a deferred loan cost balance, net of accumulated amortization, of \$3.7 million and \$4.0 million, respectively, related to our senior credit facility. As of March 31, 2012 and December 31, 2011, we had a deferred loan cost balance, net of accumulated amortization, of \$5.7 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").

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### *Fair Value of Other Financial Instruments*

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

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

The carrying amount of our long-term debt was \$822.4 million and \$832.2 million, respectively, and the fair value was \$836.7 million and \$801.0 million, respectively, as of March 31, 2012 and December 31, 2011. We classify long-term debt as Level 2 within the fair value hierarchy. Fair value of our long-term debt is based on observable estimates provided by third party financial professionals as of March 31, 2012 and December 31, 2011.

#### **4. Preferred Stock**

As of March 31, 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 March 31, 2012 and December 31, 2011. The Series D Perpetual Preferred Stock had a recorded value of \$24.9 million and \$24.8 million as of March 31, 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 March 31, 2012 and December 31, 2011 were \$14.8 million and \$13.7 million, respectively.

Except for the payment of dividends in connection with the repurchase of a portion of the Series D Perpetual Preferred Stock, we have deferred the cash payment of our Series D Perpetual Preferred Stock dividends earned thereon 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 preferences 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 cash 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.

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**5. Retirement Plans**

The following table provides the components of net periodic benefit cost for our pension plans for the three-month periods ended March 31, 2012 and 2011, respectively (in thousands):

|                                | Three Months Ended March 31, |                 |
|--------------------------------|------------------------------|-----------------|
|                                | 2012                         | 2011            |
| Service cost                   | \$ 1,147                     | \$ 1,066        |
| Interest cost                  | 830                          | 753             |
| Expected return on plan assets | (682)                        | (616)           |
| Loss amortization              | 576                          | 154             |
| Net periodic benefit cost      | <u>\$ 1,871</u>              | <u>\$ 1,357</u> |

During the three months ended March 31, 2012, we contributed \$1.0 million to our pension plans. During the remainder of fiscal 2012, we expect to contribute an additional \$6.0 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 shares under our 2007 Long-Term Incentive Plan and our Directors' Restricted Stock Plan. The following table provides our stock-based compensation expense and related income tax benefit for the three-month periods ended March 31, 2012 and 2011, respectively (in thousands).

|   | Three Months Ended March 31, |              |
|---|------------------------------|--------------|
|   | 2012                         | 2011         |
| Stock-based compensation expense, gross   | \$ 14                        | \$ 34        |
| Income tax benefit at our statutory rate associated with stock-based compensation | (5)                          | (13)         |
| Stock-based compensation expense, net   | <u>\$ 9</u>                  | <u>\$ 21</u> |

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*Long-term Incentive Plan*

The 2007 Long-Term Incentive Plan authorizes the grant of stock options, restricted stock awards and other equity-based incentive awards to our officers and employees. During the three-month periods ended March 31, 2012 and 2011, we did not grant any stock options, restricted stock awards or other equity-based incentive awards to our officers or employees. A summary of stock option activity related to our common stock for the three-month periods ended March 31, 2012 and 2011 is as follows (option amounts in thousands):

|  | Three Months Ended |                                 |                |                                 |
|--|--------------------|---------------------------------|----------------|---------------------------------|
|  | March 31, 2012     |                                 | March 31, 2011 |                                 |
|  | Options            | Weighted-Average Exercise Price | Options        | Weighted-Average Exercise Price |
| <b>Common stock:</b>   |                    |                                 |                |                                 |
| Stock options outstanding - beginning of period                  | 1,002              | \$ 7.50                         | 1,005          | \$ 7.51                         |
| Options granted  | —                  | \$ —                            | —              | \$ —                            |
| Options exercised  | —                  | \$ —                            | —              | \$ —                            |
| Options expired  | (32)               | \$ 8.61                         | —              | \$ —                            |
| Options forfeited  | —                  | \$ —                            | (1)            | \$ 8.61                         |
| Stock options outstanding - end of period                        | <u>970</u>         | <u>\$ 7.47</u>                  | <u>1,004</u>   | <u>\$ 7.51</u>                  |
| Exercisable at end of period                                     | 970                | \$ 7.47                         | 1,004          | \$ 7.51                         |
| Weighted-average fair value of options granted during the period |                    | \$ —                            |                | \$ —                            |

For the three-month period ended March 31, 2012, we did not have any options outstanding for our Class A common stock. The purchase price of shares underlying stock options outstanding as of March 31, 2012 exceeded the closing market price of our common stock.

*Directors' Restricted Stock Plan*

The Directors' Restricted Stock Plan authorizes the grant of restricted stock awards to our non-employee directors. During the three-month periods ended March 31, 2012 and 2011, we did not grant any shares of restricted stock to our directors. The unearned compensation associated with prior grants of our restricted common stock is amortized as an expense over the vesting period of the restricted common stock. The total amount of unearned compensation is equal to the market value of the shares at the date of grant, net of accumulated amortization.

The following table summarizes our non-vested restricted shares during the three-month period ended March 31, 2012 and their weighted-average fair value per share as of their date of grant (shares in thousands):

|  | Number of Shares | Weighted-Average Fair Value |
|--|------------------|-----------------------------|
| <b>Restricted Stock:</b>                               |                  |                             |
| Non-vested common restricted shares, December 31, 2011 | 10               | \$ 4.94                     |
| Vested   | —                | \$ —                        |
| Non-vested common restricted shares, March 31, 2012    | <u>10</u>        | \$ 4.94                     |

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## 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 March 31, 2012, the aggregate license fee to be paid by IMG to UK over the remaining term of the agreement is approximately \$29.8 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 three-month period ended March 31, 2012, we did not advance any amounts to UK on behalf of IMG under this agreement. As of March 31, 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 broadcast licenses during the three-month period ended March 31, 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 three-month period ended March 31, 2012.

## 9. Income Taxes

For the three-month periods ended March 31, 2012 and 2011, our income tax expense (benefit) and effective income tax rates were as follows (dollars in thousands):

|                              | Three Months Ended March 31, |            |
|------------------------------|------------------------------|------------|
|                              | 2012                         | 2011       |
| Income tax expense (benefit) | \$ 2,289                     | \$ (1,411) |
| Effective income tax rate    | 40.4%                        | 31.4%      |

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 three-month period ended March 31, 2012, these estimates increased or decreased our statutory Federal income tax rate of 35.0% to our effective income tax rate of 40.4% as follows: state income taxes added 6.3%, permanent differences between our U.S. GAAP income and taxable income added 0.6%, and adjustments to our reserve for uncertain tax positions resulted in a reduction of 1.5%. For the three-month period ended March 31, 2011, these estimates increased or decreased our statutory Federal income tax rate of 35.0% to our effective income tax rate of 31.4% as follows: permanent differences between our U.S. GAAP loss and taxable loss added 7.1%, state income taxes added 9.9% and adjustments to our reserve for uncertain tax positions resulted in a reduction of 20.6%.

## **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”).

#### *General*

We own 36 television stations serving 30 television markets. Seventeen of our stations 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 40 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 or (“USN”), one affiliated with The Country Network (“TCN”) and seven local news/weather channels in certain of our existing markets. 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.



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### *Revenues, Cyclicalities 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 three month period ended March 31, 2012, our largest advertising customer categories were the automotive and medical categories. For the three month period ended March 31, 2012, we earned approximately 20% and 11% of our total broadcast advertising revenue from the automotive and medical categories, respectively. In the three month period ended March 31, 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 March 31, |                  |                 |                  |
|------------------------------------|------------------------------|------------------|-----------------|------------------|
|                                    | 2012                         |                  | 2011            |                  |
|                                    | Amount                       | Percent of Total | Amount          | Percent of Total |
| Revenue (less agency commissions): |                              |                  |                 |                  |
| Local                              | \$45,875                     | 56.9%            | 43,765          | 62.8%            |
| National                           | 13,006                       | 16.1%            | 12,975          | 18.6%            |
| Internet                           | 5,692                        | 7.1%             | 4,247           | 6.1%             |
| Political                          | 4,959                        | 6.1%             | 1,381           | 2.0%             |
| Retransmission consent             | 8,478                        | 10.5%            | 5,047           | 7.2%             |
| Other                              | 1,869                        | 2.3%             | 1,777           | 2.6%             |
| Consulting revenue                 | 795                          | 1.0%             | 550             | 0.7%             |
| Total                              | <u>\$80,674</u>              | <u>100.0%</u>    | <u>\$69,742</u> | <u>100.0%</u>    |

### **Results of Operations**

#### *Three Months Ended March 31, 2012 (“2012 three-month period”) Compared To Three Months Ended March 31, 2011 (“2011 three-month period”)*

*Revenue.* Total revenue increased \$10.9 million, or 16%, to \$80.7 million in the 2012 three-month period primarily due to increased retransmission consent revenue and political, local and internet advertising revenue. Retransmission consent revenue increased \$3.4 million, or 68%, to \$8.5 million due to the improved terms of our

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retransmission contracts compared to those of 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. Political advertising revenue increased \$3.6 million, or 259%, to \$5.0 million reflecting increased advertising from political candidates and special interest groups in 2012 due to this being the “on year” of the two year election cycle. Local advertising revenue increased \$2.1 million, or 5%, to \$45.9 million and internet advertising revenue increased \$1.4 million, or 34%, to \$5.7 million. National advertising revenue was \$13.0 million for the 2012 and 2011 three-month periods. Our local advertising revenue continued to increase primarily due to an improving economy. While our internet advertising revenue has also benefited from an improving 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 that earned us approximately \$0.2 million. Our five largest local and national advertising categories on a combined local and national basis by customer type, excluding political advertising, demonstrated the following changes during the 2012 three-month period compared to 2011 three-month period: automotive increased 8%; medical increased 15%; restaurant increased 8%; communications increased 17%; and furniture and appliances increased 5%. We earned consulting revenue of \$0.8 million under our agreement with Young Broadcasting, Inc.

*Broadcast Expenses.* Broadcast expenses (before depreciation, amortization and loss or gain on disposal of assets) increased \$2.6 million, or 5%, to \$50.8 million in the 2012 three-month period, due primarily to increases in non-compensation expense of \$1.8 million and compensation expense of \$0.8 million. Non-compensation expense increased primarily due to an increase in programming costs, other professional services and national sales commissions. Compensation expense increased primarily due to increases in payroll and pension expenses. As of March 31, 2012 and 2011, we employed 2,079 and 2,132 full and part-time employees, respectively, in our broadcast operations.

*Corporate and Administrative Expenses.* Corporate and administrative expenses (before depreciation, amortization and loss or gain on disposal of assets) increased \$0.1 million, or 2%, to \$3.1 million. The increase in corporate and administrative expenses was due primarily to increased compensation expense. Compensation expense increased primarily due to increases in payroll and pension expenses. During the 2012 three-month period and the 2011 three-month period, we recorded non-cash stock-based compensation expense of \$14,000 and \$34,000, respectively.

*Depreciation.* Depreciation of property and equipment totaled \$5.9 million and \$7.0 million for the 2012 three-month period and the 2011 three-month period, respectively. 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.

*Interest Expense.* Interest expense decreased \$0.8 million, or 5%, to \$15.2 million for the 2012 three-month period compared to the 2011 three-month period. This decrease was attributable to a decrease in average interest rates and average principal outstanding. Average interest rates decreased primarily due to a decrease in our annual facility fee rate from 0.75% to 0%. Effective April 1, 2011, our annual facility fee rate became dependent upon our first lien leverage ratio and can range between 0% and 1.0% per year. Our average outstanding debt balance was \$829.2 million and \$832.4 million during the 2012 three-month period and the 2011 three-month period, respectively. The average interest rate on our total outstanding debt balances was 7.0% and 7.4% during the 2012 three-month period and the 2011 three-month period, respectively.

*Income tax expense or benefit.* We recognized an income tax expense of \$2.3 million in the 2012 three-month period compared to an income tax benefit of \$1.4 million in the 2011 three-month period. For the 2012 three-month period and the 2011 three-month period, our effective income tax rate was 40.4% and 31.4%, respectively. We estimate our differences between taxable income or loss and recorded income or loss on an annual basis. Our tax provision for each quarter is based upon these full year projections 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. For the 2012 three-month period, these

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estimates increased or decreased our statutory Federal income tax rate of 35.0% to our effective income tax rate of 40.4% as follows: state income taxes added 6.3%, permanent differences between our U.S. GAAP income and taxable income added 0.6%, and adjustments to our reserve for uncertain tax positions resulted in a reduction of 1.5%.

*Preferred stock dividends.* Preferred stock dividends decreased \$0.6 million, or 34%, to \$1.2 million in the 2012 three-month period compared to the 2011 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 ended compared to the 2011 three-month period.

## Liquidity and Capital Resources

### General

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

|   | Three Months Ended |                 |
|---|--------------------|-----------------|
|   | March 31,          |                 |
|   | 2012               | 2011            |
| Net cash provided by operating activities | \$ 26,996          | \$ 14,860       |
| Net cash used in investing activities     | (6,869)            | (9,313)         |
| Net cash used in financing activities     | (10,206)           | (1,206)         |
| Net increase in cash                      | <u>\$ 9,921</u>    | <u>\$ 4,341</u> |

  

|  | As of     |           |
|--|-----------|-----------|
|  | March 31, | December  |
|  | 2012      | 31, 2011  |
| Cash   | \$ 15,111 | \$ 5,190  |
| Long-term debt including current portion                       | \$822,366 | \$832,233 |
| Preferred stock, excluding unamortized original issue discount | \$ 24,919 | \$ 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 March 31, 2012 was comprised solely of a term loan balance of \$461.8 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 March 31, 2012 and December 31, 2011, we were in compliance with all covenants required under our debt obligations.

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

As of March 31, 2012 and December 31, 2011, we had a deferred loan cost balance, net of accumulated amortization, of \$3.7 million and \$4.0 million, respectively, related to our senior credit facility. As of March 31, 2012 and December 31, 2011, we had a deferred loan cost balance, net of accumulated amortization, of \$5.7 million and \$6.1 million, respectively, related to our Notes.

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### *Preferred Stock*

As of March 31, 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 March 31, 2012 and December 31, 2011. The Series D Perpetual Preferred Stock had a recorded value of \$24.9 million and \$24.8 million as of March 31, 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 March 31, 2012 and December 31, 2011 were \$14.8 million and \$13.7 million, respectively.

Except for the payment of dividends in connection with the repurchase of a portion of the Series D Perpetual Preferred Stock, we have deferred the cash payment of our Series D Perpetual Preferred Stock dividends earned thereon 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. Our Series D Perpetual Preferred Stock dividend began accruing at 17.0% per annum on July 16, 2009.

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 preferences 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 cash 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 \$27.0 million in the 2012 three-month period compared to net cash provided by operating activities of \$14.9 million in the 2011 three-month period. The increase in cash provided by operations is due primarily to increased revenue.

Net cash used in investing activities was \$6.9 million in the 2012 three-month period compared to net cash used in investing activities of \$9.3 million for the 2011 three-month period. The decrease in cash used in investing activities was largely due to decreased spending for equipment.

Net cash used in financing activities was \$10.2 million in the 2012 three-month period compared to net cash used in financing activities of \$1.2 million in the 2011 three-month period. This increase in cash used was due to the repayment of \$9.0 million of revolving loans under our senior credit facility in the 2012 three-month period. There was no similar repayment of revolving loans under our senior credit facility in the 2011 three-month period.

### *Liquidity*

As of March 31, 2012, we are required to make at least \$4.8 million in debt principal payments during the twelve months immediately following March 31, 2012. As of March 31, 2012, we estimate that we will make approximately \$55.2 million in debt interest payments and \$20.0 million in capital expenditures during the twelve months immediately following March 31, 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.

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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 three-month periods were \$6.8 million and \$9.2 million, respectively. The 2011 three-month period included, in part, capital expenditures for high definition broadcast equipment, while the 2012 three-month period did not contain as many comparable purchases. We anticipate that our capital expenditures for the remainder of 2012 will approximate \$13.2 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 March 31, 2012, we anticipate that through the use of our available loss carryforwards we will not pay significant amounts of federal or state income taxes for the next several years.

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

During the 2012 three-month period, we contributed \$1.0 million to our pension plans. During the remainder of fiscal 2012, we expect to contribute an additional \$6.0 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.

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

We believe that the market risk of our financial instruments as of March 31, 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 March 31, 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**

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

|              |   |
|--------------|---|
| Exhibit 10.1 | Form of Nonqualified Stock Option Award Agreement under the Gray Television, Inc. 2007 Long Term Incentive Plan |
| Exhibit 10.2 | Form of Restricted Stock Agreement under the Gray Television, Inc. 2007 Long Term Incentive Plan                |
| Exhibit 31.1 | Rule 13(a) – 14(a) Certificate of Chief Executive Officer   |
| Exhibit 31.2 | Rule 13(a) – 14(a) Certificate of Chief Financial Officer   |
| Exhibit 32.1 | Section 1350 Certificate of Chief Executive Officer   |
| Exhibit 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  |



**GRAY TELEVISION, INC.**  
**NONQUALIFIED STOCK OPTION AWARD AGREEMENT**  
**PURSUANT TO**  
**2007 LONG TERM INCENTIVE PLAN**

**THIS AGREEMENT**, made as of the \_\_\_\_ of \_\_\_\_\_, by and between GRAY TELEVISION, INC. (hereinafter referred to as the “Company”) and [\_\_\_\_\_] (hereinafter referred to as “Optionee”).

**WHEREAS**, the Company has adopted an equity plan known as the 2007 Long Term Incentive Plan (hereinafter referred to as the “Plan”) for the purpose of advancing the interests of the Company and its shareholders by strengthening the ability of the Company to attract and retain officers and key employees of training, experience, and ability and to furnish an additional incentive to those officers and key employees of the Company upon whose judgment, initiative and efforts the successful conduct and growth of its and their business largely depend, by encouraging officers and key employees to have a material interest in the increase in value of, and to become owners or increase their ownership of, the common stock, no par value, of the Company (“Common Stock”); and

**WHEREAS**, Optionee is now an officer or key employee of the Company or one of its subsidiaries and the Company desires to have Optionee remain as an officer or key employee and to afford Optionee the opportunity to acquire or enlarge Optionee’s stock ownership in the Company, so that Optionee may have a direct proprietary interest in the Company’s success;

**NOW, THEREFORE**, in consideration of the premises and of the mutual covenants and agreements hereinafter set forth, the parties hereto mutually covenant and agree as follows:

**1. Grant of Option.** Subject to the terms and conditions set forth herein, the Company grants to Optionee a nonqualified stock option (the “Option”) to purchase from the Company all or any part of [\_\_\_\_\_] ([\_\_\_\_\_] shares of Common Stock (“Shares”). The Option is intended to be a nonqualified stock option and shall not be treated as an “incentive stock option” within the meaning of that term under Section 422 of the Code (as defined in the Plan).

**2. Term and Exercise of Option.**

(a) The term of the Option granted herein shall commence as of [\_\_\_\_\_] (the “Date of Grant”) and end on [\_\_\_\_\_] (the “Option Period”).

(b) The Option shall become exercisable over a [\_\_\_\_\_] year period beginning [\_\_\_\_\_] as follows:

[\_\_\_\_\_]

if on each respective date Optionee has not terminated his or her employment with the Company or any Subsidiary (as defined in the Plan) of the Company. For purposes of this Agreement, leaves of absence granted to Optionee by the Company for military service, illness, and transfers of employment between the Company and any Subsidiary thereof shall not constitute a termination of employment.



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(c) The Option hereby granted may be exercised by contacting the administrative agent for the Plan.

**3. Exercise Price.**

(a) Optionee must pay \$[\_\_\_\_\_] per share (subject to adjustment pursuant to section 6 hereof) for the Shares acquired pursuant to this Agreement.

(b) Payment of the option price of the Shares shall be made in cash or in equivalent value of Company stock held by Optionee for at least six months at the time an Option is exercised.

**4. Termination of Option.**

(a) Except as otherwise provided below and subject to the provisions of Section 2 hereof, the Option hereby granted shall terminate and be of no force or effect upon the happening of the first of the following events:

- (i) The expiration of the Option Period;
- (ii) Thirty (30) days after the first day of termination of Optionee's employment or position as an officer or key employee of the Company, except in the case of Optionee's death, disability or retirement with the consent of the Company, unless for Cause, in which event termination of the Option shall occur immediately upon termination of employment. For the purposes of this Agreement, the term "Cause" shall mean: (i) conduct by Optionee that amounts to fraud, dishonesty, gross negligence or willful misconduct in the performance of his or her duties hereunder, or conduct that has materially and adversely affected the business, reputation or interest of the Company or any of its affiliates; (ii) the breach by Optionee of any covenant, promise or agreement, or the failure by Optionee to otherwise perform his or her duties in the manner and to the extent required, or the breach by Optionee of any other obligation owed by Optionee to the Company or the failure by Optionee to comply with policies, procedures and directions adopted or established by the Company; (iii) the indictment or conviction of Optionee of a felony; and (iv) misappropriation of or intentional material damage to the property or business of the Company;
- (iii) Twelve months after the first day of termination by reason of retirement with the consent of the Company or disability, unless Optionee dies during the twelve month period.

(b) The Option evidenced hereby is nontransferable except as provided in subsection (c) below with respect to the death of an Optionee, and shall be exercisable during the lifetime of Optionee only by Optionee.

(c) If Optionee ceases to be an employee or officer of the Company by reason of death, any unexpired portion of the Option held by Optionee and not exercised may be exercised by a legatee or legatees under Optionee's Last Will and Testament or by his/her personal

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representative or representatives (to the extent the Option would have been exercisable by Optionee) at any time within twelve months after the date of Optionee's death. If Optionee ceases to be an employee or officer of the Company by retirement with consent of the Company or disability and then dies within twelve months of such termination, any unexpired portion of the Option held by Optionee and not exercised may be exercised by a legatee or legatees under Optionee's Last Will and Testament or by his/her personal representative or representatives (to the extent the Option would have been exercisable by Optionee) at any time within three months after the date of Optionee's death.

**5. Rights as a Shareholder.** Optionee shall have no rights as a shareholder of the Company with respect to any Shares covered by this Option until the issuance of a stock certificate to him/her for such Shares.

**6. Changes in Capitalization.**

(a) As provided in Section 13 of the Plan, and upon the occurrence of any of the conditions listed therein, the Committee (as defined in the Plan) in its sole discretion shall make any adjustments as may be appropriate in the number of Shares as to which this Option shall be exercisable and in the option rights granted.

(b) As provided in Section 14 of the Plan, upon the occurrence of any of the conditions listed therein, this Option shall be immediately exercisable in accordance with that paragraph, subject to the limitations imposed under this Section.

**7. Covenants and Representations of Optionee.** Optionee represents, warrants, covenants and agrees with the Company as follows:

(a) The Option is being received for Optionee's own account without the participation of any other person;

(b) Optionee is not acquiring the Option based upon any representation, oral or written, by any person with respect to the future value of, or income from, the Shares subject to this Option, but rather upon an independent examination and judgment as to the prospects of the Company;

(c) Optionee has received a copy of the Plan and has had complete access to and the opportunity to review and make copies of all material documents related to the business of the Company; Optionee has examined all of these documents as he/she wished, is familiar with the business and affairs of the Company, and realizes that the receipt of the Shares is a speculative investment and that any possible profit therefrom is uncertain;

(d) Optionee has had the opportunity to ask questions of and receive answers from the Company and any person acting on its behalf and to obtain all information available with respect to the Plan, the Company and its affairs, and has received all information and data with respect to the Plan and the Company that he/she has requested and which he/she has deemed relevant in connection with his/her receipt of the Option and the Shares subject thereto;

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(e) Optionee is able to bear the economic risk of the investment, including the risk of a complete loss of his/her investment;

(f) The agreements, representations, warranties, and covenants made by Optionee herein with respect to the Option shall also extend to and apply to all of the Shares of the Company issued to Optionee from time to time pursuant to this Option. Acceptance by Optionee of the certificate(s) representing Shares shall constitute a confirmation by Optionee that all such agreements, representations, warranties and covenants made herein shall be true and correct at that time.

**8. Compliance with Securities Laws.** Anything in this Agreement to the contrary notwithstanding, if, at any time specified herein for the issuance of Shares to Optionee, any federal or state securities law, any regulation or requirement of the Securities and Exchange Commission or any other governmental authority having jurisdiction shall require either the Company or Optionee to take any action in connection with the Shares then to be issued, the issuance of the Shares shall be deferred until that action shall have been taken; however, the Company shall be under no obligation to take action, and the Company shall have no liability whatsoever as a result of the nonissuance of the Shares, except to refund to Optionee any consideration tendered in respect of the exercise price.

**9. Resolution of Disputes.** Any dispute or disagreement which shall arise under, as a result of, or pursuant to, this agreement shall be determined by the President of the Company, in his absolute and sole discretion, and any such determination or any other determination by the President under or pursuant to this Agreement and any interpretation by the President of the terms of this Agreement shall be final, binding and conclusive on all persons affected thereby; provided, however, the Committee shall have the right, in its absolute and sole discretion, to overrule or modify any determination or interpretation made by the President, in which event any determination or interpretation by the Committee shall be final, binding and conclusive on all persons affected thereby.

**10. Notice.** Any notice which either party hereto may be required or permitted to give to the other shall be in writing, and may be delivered personally or by mail, postage prepaid, addressed as follows: to the President of the Company, or the Company (attention of the President), at 4370 Peachtree Road, NE, Atlanta, Georgia 30319, or at any other address as the Company, by notice to Optionee, may designate in writing from time to time; to Optionee, at Optionee's address as shown on the records of the Company, or at any other address as Optionee, by notice to the Company, may designate in writing from time to time.

**11. Successors.** This Agreement shall be binding upon and inure to the benefit of the heirs, legal representatives, successors and permitted assigns of the parties.

**12. Severability.** In the event that any one or more of the provisions or portion thereof contained in the Agreement shall for any reason be held to be invalid, illegal or unenforceable in any respect, the same shall not invalidate or otherwise affect any other provisions of this Agreement and this Agreement shall be construed as if the invalid, illegal or unenforceable provision or portion thereof had never been contained herein.

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**13. Amendments.** Any amendment to the Plan shall be deemed to be an amendment to this Agreement to the extent that the amendment is applicable hereto.

**14. Relation to Plan.** This Agreement is subject to the terms and conditions of the Plan. In the event of any inconsistency between the provisions of this Agreement and the Plan, the Plan shall govern.

**15. Entire Agreement.** Subject to the terms and conditions of the Plan, which is incorporated herein by reference, this Agreement expresses the entire understanding and agreement of the parties hereto. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which shall constitute one and the same instrument.

This Agreement shall be governed, construed and enforced in all respects in accordance with the laws of the State of Georgia.

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IN WITNESS WHEREOF, the parties have executed and sealed this Nonqualified Stock Option Agreement on the date and year set forth above.

[CORPORATE SEAL]

Gray Television, Inc.

ATTEST:

By: \_\_\_\_\_

Name: [\_\_\_\_\_]

Title: [\_\_\_\_\_]

\_\_\_\_\_

Accepted this \_\_\_\_ day of \_\_\_\_\_, 20\_\_.

OPTIONEE:

\_\_\_\_\_

[\_\_\_\_\_]

\_\_\_\_\_

Social Security Number

**GRAY TELEVISION, INC.**  
**2007 LONG TERM INCENTIVE PLAN**

RESTRICTED STOCK AGREEMENT

THIS AGREEMENT, entered into, effective as of the Grant Date, by and between the Participant and Gray Television, Inc. (the "Company").

WHEREAS, the Company maintains the Gray Television, Inc. 2007 Long Term Incentive Plan (the "Plan"), which is incorporated into and forms a part of this Agreement, and the Participant has been selected by the committee administering the Plan (the "Committee") to receive an Award of Restricted Stock ("Restricted Stock Award") under the Plan;

NOW, THEREFORE, IT IS AGREED, by and between the Company and the Participant, as follows:

1. Terms of Award. The following terms shall govern the Restricted Stock Award:

- (a) The "Participant" is [\_\_\_\_\_]
- (b) The "Grant Date" is [\_\_\_\_\_].
- (c) The number of shares of Restricted Stock awarded under this Agreement shall be [\_\_\_\_\_] ([\_\_\_\_\_] shares. Shares of "Restricted Stock" are shares of Stock (as defined in the Plan) granted under this Agreement and are subject to the terms of this Agreement and the Plan.
- (d) The "Period of Restriction" is the period beginning on the Grant Date and ending on the applicable Vesting Date (as defined below).
- (e) The Vesting Date is the date the Period of Restriction will end and the shares of Restricted Stock will be owned free and clear of any restrictions by the Participant except as otherwise provided in Section 4(b). The shares of Restricted Stock shall vest on the applicable Vesting Date as set forth on the following schedule provided the Participant's Date of Termination has not occurred on or before such Vesting Date.  
[\_\_\_\_\_]
- (f) Shares of Restricted Stock may not be sold, assigned, transferred, pledged or otherwise encumbered during the Period of Restriction. Except as otherwise provided in Section 4, if the Participant's Date of Termination occurs prior to the end of the Period of Restriction, the Participant shall forfeit the Restricted Stock as of the Participant's Date of Termination.
- (g) If the Participant is a Reporting Person (as defined in the Plan), the Participant shall be subject to any additional restrictions imposed on Reporting Persons under the provisions of the Plan.

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2. Dividends and Voting Rights. The Participant shall be entitled to receive all dividends on shares of Restricted Stock that become payable during the Period of Restriction; provided, however, that no dividends shall be payable to or for the benefit of the Participant with respect to record dates occurring prior to the Grant Date, or with respect to record dates occurring on or after the date, if any, on which the Participant has forfeited the Restricted Stock. The Participant shall be entitled to vote the shares of Restricted Stock during the Period of Restriction provided, however, that the Participant shall not be entitled to vote the shares with respect to record dates for such voting rights arising prior to the Grant Date, or with respect to record dates occurring on or after the date, if any, on which the Participant has forfeited the Restricted Stock.
  3. Holding of Restricted Stock. Each certificate issued in respect of shares of Restricted Stock granted under this Agreement shall be delivered and held by the Participant subject to the transfer restrictions, forfeiture provisions and other terms and conditions contained in this Agreement and the Plan. Each such certificate shall contain a legend reflecting that the shares are subject to the restrictions and other terms and conditions provided for in this Agreement and Plan. Each such certificate shall be returned to the Company immediately upon forfeiture of the shares of Restricted Stock.
  4. Accelerated Vesting and Forfeiture of Shares. Subject to the provision of Section 4(b) of this Agreement and provided the Restricted Stock has not been otherwise forfeited under another provision of this Agreement:
    - (a) The Participant shall become vested in the shares of Restricted Stock, and become owner of the shares free of all restrictions otherwise imposed by this Agreement, prior to the Vesting Date set forth in Section 1 as follows:
      - (i) The Participant shall become fully vested in the shares of Restricted Stock as of the date of a Change in Control (as defined in the Plan), if the Change in Control occurs prior to the Vesting Date of the Restricted Stock, and the Participant's Date of Termination does not occur before the Change in Control date.
      - (ii) The Participant shall become fully vested in the shares of Restricted Stock as of the Participant's Date of Termination if as of such Date of Termination the Participant has a Disability.
      - (iii) The Participant shall become fully vested in the shares of Restricted Stock as of the Participant's Date of Termination if the Date of Termination occurs because of the Participant's death.
    - (b) Notwithstanding any other provision of the Plan or this Agreement, the Company shall have no liability to deliver any shares of Restricted Stock under the Plan or this Agreement or make any other distributions of benefits under this Agreement or the Plan unless delivery or distribution would comply with all applicable laws (including, without limitation, the requirements of the Securities Act of 1933), and the applicable requirements of any securities exchange or similar entity.

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5. Definitions. For purposes of this Agreement, the terms used in this Agreement shall be subject to the following:
- (a) Date of Termination. The Participant's "Date of Termination" shall be the first day occurring on or after the Grant Date on which the Participant is no longer an employee of the Company or any Subsidiary (as defined in the Plan).
  - (b) Disability. Except as otherwise provided by the Committee, the Participant shall be considered to have a "Disability" if the Participant is deemed to have a "permanent and total disability," as defined in Section 22(e)(3) of the Code (as defined in the Plan), as determined by the Committee in good faith, upon receipt of and in reliance on sufficient competent medical advice.
6. Heirs and Successors. This Agreement shall be binding upon, and inure to the benefit of, the Company and its successors and assigns, and upon any person acquiring, whether by merger, consolidation, purchase of assets or otherwise, all or substantially all of the Company's assets and business. If any rights by the Participant or benefits deliverable to the Participant under this Agreement have not been delivered, respectively, at the time of the Participant's death, such benefits shall be delivered to the Designated Beneficiary, in accordance with the provisions of this Agreement and the Plan. The "Designated Beneficiary" shall be the beneficiary or beneficiaries designated by the Participant in a writing filed with the Committee in such form and at such time as the Committee shall require. If a deceased Participant fails to designate a beneficiary, or if the Designated Beneficiary does not survive the Participant, any benefits distributable to the Participant shall be distributed to the legal representative of the estate of the Participant. If a deceased Participant designates a beneficiary but the Designated Beneficiary dies before the complete distribution of benefits to the Designated Beneficiary under this Agreement, then any benefits distributable to the Designated Beneficiary shall be distributed to the legal representative of the estate of the Designated Beneficiary.
7. Administration. The authority to manage and control the operation and administration of this Agreement shall be vested in the Committee, and the Committee shall have all powers with respect to this Agreement as it has with respect to the Plan. Any interpretation of the Agreement by the Committee and any decision made by it with respect to the Agreement are final and binding on all persons.
8. Plan Governs. Notwithstanding anything in this Agreement to the contrary, the terms of this Agreement shall be subject to the terms of the Plan, a copy of which may be obtained by the Participant from the office of the Secretary of the Company; and this Agreement is subject to all interpretations, amendments, rules and regulations promulgated by the Committee from time to time pursuant to the Plan.
9. Amendment. This Agreement may be amended by written Agreement of the Participant and the Company, without the consent of any other person.
10. Covenants and Representations of the Participant. The Participant represents, warrants, covenants and agrees with the Company as follows:



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- (a) The Participant represents that he is acquiring the shares of Restricted Stock solely for his own account, for investment, and not with a view to or for the resale, distribution, subdivision or fractionalization thereof;
  - (b) The Participant is not acquiring the Restricted Stock based upon any representation, oral or written, by any person with respect to the future value of, or income from, the shares of Restricted Stock, but rather upon an independent examination and judgment as to the prospects of the Company;
  - (c) The Participant has received a copy of the Plan and has had complete access to and the opportunity to review and make copies of all material documents related to the business of the Company; the Participant has examined all of these documents as he/she wished, is familiar with the business and affairs of the Company;
  - (d) The Participant has had the opportunity to ask questions of and receive answers from the Company and any person acting on its behalf and to obtain all information available with respect to the Plan, the Company and its affairs, and has received all information and data with respect to the Plan and the Company that he/she has requested and which he/she has deemed relevant in connection with his/her receipt of the shares of Restricted Stock; and
  - (e) The agreements, representations, warranties, and covenants made by the Participant herein with respect to the Restricted Stock Award shall also extend to and apply to all of the shares of the Company issued to the Participant from time to time pursuant to this Restricted Stock Award. Acceptance by the Participant of the certificate(s) representing shares of Restricted Stock shall constitute a confirmation by the Participant that all such agreements, representations, warranties and covenants made herein shall be true and correct at that time.
11. Severability. In the event that any one or more of the provisions or portion thereof contained in the Agreement shall for any reason be held to be invalid, illegal or unenforceable in any respect, the same shall not invalidate or otherwise affect any other provisions of this Agreement and this Agreement shall be construed as if the invalid, illegal or unenforceable provision or portion thereof had never been contained herein.
  12. Notice. Any notice which either party hereto may be required or permitted to give to the other shall be in writing, and may be delivered personally or by mail, postage prepaid, addressed as follows: to the President of the Company, or the Company (attention of the President), at 4370 Peachtree Road, NE, Atlanta, Georgia 30319, or at any other address as the Company, by notice to the Participant, may designate in writing from time to time; to the Participant, at the Participant's address as shown on the records of the Company, or at any other address as the Participant, by notice to the Company, may designate in writing from time to time.
  13. Entire Agreement. Subject to the terms and conditions of the Plan, which is incorporated herein by reference, this Agreement expresses the entire understanding and agreement of the parties hereto. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which shall constitute one and the same instrument.

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This Agreement shall be governed, construed and enforced in all respects in accordance with the laws of the State of Georgia.

IN WITNESS WHEREOF, the Participant has executed this Agreement, and the Company has caused these presents to be executed in its name and on its behalf, all as of the Grant Date.

**PARTICIPANT**

\_\_\_\_\_

[ ]

**GRAY TELEVISION, INC.**

By: \_\_\_\_\_

[ ]

Its: [ ]

**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: May 2, 2012

By: /s/ Hilton H. Howell, Jr.  
Hilton H. Howell, Jr.  
Vice-Chairman and Chief Executive 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 March 31, 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: May 2, 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 March 31, 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: May 2, 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.