

GRAY TELEVISION INC
Form 10-Q
May 02, 2012
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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)

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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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Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****GRAY TELEVISION, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)**

(in thousands)

| | March 31, 2012 | December 31, 2011 |
|--|-------------------|----------------------|
| Assets: | | |
| 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 | 4,087 | 1,959 |
| 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 | 3,299 | 3,597 |
| Total assets | \$ 1,236,546 | \$ 1,233,980 |

See notes to condensed consolidated financial statements.

Table of Contents**GRAY TELEVISION, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)**

(in thousands)

| | March 31, 2012 | December 31, 2011 |
|--|---------------------|----------------------|
| Liabilities and stockholders equity: | | |
| 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.

Table of Contents**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 | 59,853 | 58,236 |
| Operating income | 20,821 | 11,506 |
| Other income (expense): | | |
| Miscellaneous income, net | 2 | |
| Interest expense | (15,163) | (16,000) |
| Income (loss) before income taxes | 5,660 | (4,494) |
| Income tax expense (benefit) | 2,289 | (1,411) |
| Net income (loss) | 3,371 | (3,083) |
| Preferred stock dividends (includes accretion of issuance cost of \$77 and \$118, respectively) | 1,179 | 1,789 |
| Net income (loss) available to common stockholders | \$ 2,192 | \$ (4,872) |
| Basic and diluted per share information: | | |
| Net income (loss) available to common stockholders | \$ 0.04 | \$ (0.09) |
| Weighted average shares outstanding | 57,148 | 57,112 |
| Dividends declared per common share | \$ | \$ |

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 Common Stock | | Common Stock | | Accumulated | Class A Treasury Stock | | Common Treasury Stock | | Accumulated Other Comprehensive | Total |
|---|-------------------------|-----------|--------------|------------|--------------|---------------------------|-------------|--------------------------|-------------|---------------------------------------|------------|
| | Shares | Amount | Shares | Amount | Deficit | Shares | Amount | Shares | Amount | Loss | |
| Balance at December 31, 2011 | 7,331,574 | \$ 15,321 | 56,057,070 | \$ 479,869 | \$ (293,322) | (1,578,554) | \$ (22,398) | (4,654,750) | \$ (40,115) | \$ (16,402) | \$ 122,953 |
| Net income | | | | | 3,371 | | | | | | 3,371 |
| Preferred stock dividends (including accretion of original issuance costs) | | | | | (1,179) | | | | | | (1,179) |
| Issuance of common stock: 401(k) plan | | | 3,526 | 7 | | | | | | | 7 |
| Share-based compensation | | | | 14 | | | | | | | 14 |
| Balance at March 31, 2012 | 7,331,574 | \$ 15,321 | 56,060,596 | \$ 479,890 | \$ (291,130) | (1,578,554) | \$ (22,398) | (4,654,750) | \$ (40,115) | \$ (16,402) | \$ 125,166 |

See notes to condensed consolidated financial statements.

Table of Contents**GRAY TELEVISION, INC.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)**

(in thousands)

| | Three Months Ended March 31, | |
|--|---|-----------------|
| | 2012 | 2011 |
| Operating activities | | |
| 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 | 26,996 | 14,860 |
| Investing activities | | |
| Purchases of property and equipment | (6,839) | (9,198) |
| Proceeds from asset sales | 24 | 17 |
| Other | (54) | (132) |
| Net cash used in investing activities | (6,869) | (9,313) |
| Financing activities | | |
| Repayments of borrowings on long-term debt | (10,206) | (1,206) |
| Net cash used in financing activities | (10,206) | (1,206) |
| Net increase in cash | 9,921 | 4,341 |
| Cash at beginning of period | 5,190 | 5,431 |
| Cash at end of period | \$ 15,111 | \$ 9,772 |

See notes to condensed consolidated financial statements.

Table of Contents**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):

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

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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 | 980 | 1,037 |

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

Our comprehensive income (loss) for the three-month 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.

Table of Contents*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):

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

Allowance for Doubtful Accounts

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

Recent Accounting Pronouncements

We have reviewed all recently issued accounting pronouncements. Of those pronouncements that have been issued but are not yet effective, we do not anticipate a material impact upon our financial statements upon our adoption of those pronouncements. None of the pronouncements that became effective and were adopted by us during the 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.

Table of Contents**2. Long-term Debt**

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

| | March 31, 2012 | December 31, 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 | \$ 822,366 | \$ 832,233 |
| | | |
| Borrowing availability under our senior credit facility | \$ 40,000 | \$ 31,000 |

Our senior credit facility consists of a revolving loan, which matures March 19, 2014, and a term loan, which matures December 31, 2014. Excluding accrued interest, the amount outstanding under our senior credit facility as of 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 unaccrued 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.

Table of Contents**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 | \$ 1,871 | \$ 1,357 |

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 | \$ 9 | \$ 21 |

Table of Contents*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 |
| Common stock: | | | | |
| 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 | 970 | \$ 7.47 | 1,004 | \$ 7.51 |
| 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 |
|--|------------------|-----------------------------|
| Restricted Stock: | | |
| Non-vested common restricted shares, December 31, 2011 | 10 | \$ 4.94 |
| Vested | | \$ |
| Non-vested common restricted shares, March 31, 2012 | 10 | \$ 4.94 |

Table of Contents**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%.

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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.

Table of Contents*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 | \$ 80,674 | 100.0% | \$ 69,742 | 100.0% |

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 | \$ 9,921 | \$ 4,341 |

| | As of | |
|--|-------------------|----------------------|
| | March 31, 2012 | December 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.

Table of Contents*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 unaccrued 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.

Table of Contents**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 |

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

GRAY TELEVISION, INC.

Date: May 2, 2012

By:

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