GRAY TELEVISION INC
Form 10-K
March 06, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

for the fiscal year ended December 31, 2011

x **Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2011**
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	**58-0285030**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
4370 Peachtree Road, NE Atlanta, GA	**30319**
(Address of Principal Executive Offices)	(Zip Code)

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

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

Title of each class	Name of each exchange on which registered
Class A Common Stock (no par value)	**New York Stock Exchange**
Common Stock (no par value)	**New York Stock Exchange**

Securities registered pursuant to Section 12(g) of the Act: **NONE**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x

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 period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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 definition of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one).

Large accelerated filer ¨	Accelerated filer x
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 Act). Yes ¨ No x

The aggregate market value of the voting stock (based upon the closing sales price quoted on the New York Stock Exchange) held by non-affiliates as of June 30, 2011: **Class A and Common Stock; no par value $131,951,796.**

The number of shares outstanding of the registrant s classes of common stock as of February 29, 2012: **Class A Common Stock; no par value 5,753,020 shares; Common Stock, no par value 51,404,984 shares.**

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant s definitive proxy statement for the annual meeting of stockholders, to be filed within 120 days of the registrant s fiscal year end, pursuant to Regulation 14A is incorporated by reference into Part III hereof.

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Gray Television Inc.

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PART 1

Item 1. Business.

We were incorporated under the laws of the state of Georgia in 1897. In this annual report on Form 10-K (the Annual Report), unless otherwise indicated, the words Gray, we, us, and our refer to Gray Television, Inc. and its subsidiaries. Our discussion of the television (or TV) stations that we own and operate does not include our interest in the television and radio stations owned by Sarkes Tarzian, Inc. (Tarzian). Our fiscal year ends on December 31 of each year.

Our common stock, no par value, and our Class A common stock, no par value, have been listed and traded on The New York Stock Exchange (the NYSE) since September 24, 1996 and June 30, 1995, respectively. The ticker symbols are GTN for our common stock and GTN.A for our Class A common stock.

Unless otherwise indicated, all station rank, in-market share and television household data herein are derived from reports prepared by Nielsen Media Research Company (Nielsen), a national audience measuring service. While we believe this data to be accurate and reliable, we have not independently verified such data.

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. Based on the results of the average of the Nielsen February, May, July, and November 2011 ratings reports, our combined station group has 23 markets with stations ranked #1 in local news audience and 22 markets with stations ranked #1 in overall audience within their respective markets. Of the 30 markets that we serve, we operate the #1 or #2 ranked station in 29 of those markets. 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

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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. Because broadcast stations rely on advertising revenues, they are sensitive to cyclical changes in the economy. 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.

Television stations in the country are grouped by Nielsen into 210 geographic television markets or designated market areas (DMAs). These markets are ranked in size according to their number of television households, with the market having the largest number of television households (New York City) ranked first. Each DMA is an exclusive geographic area consisting of all counties (and in some cases, portions of counties) in which the home-market commercial television stations receive the greatest percentage of total viewing hours. Nielsen periodically publishes data on estimated audiences for the television stations in each DMA.

Revenues, Cyclicality and Seasonality

Because broadcast stations like ours rely on advertising revenues, as described above, 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 2010 and 2011.

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.

Historically, our largest two advertising customer categories have been the automotive and restaurant industries. However, no single customer represented more than 5% of our total broadcast advertising revenue in 2011 or 2010. In 2011, we earned approximately 21% and 10% of our total broadcast advertising revenue from the automotive and restaurant categories, respectively. In 2010, we earned approximately 17% and 9% of our total broadcast advertising revenue from the automotive and restaurant categories, respectively. Our business and operating results could be materially adversely affected if automotive- or restaurant-related advertising revenues decrease. 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 medical, communications, furniture and appliances, entertainment, financial services or professional services.

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Our Stations and Their Markets

All of our stations broadcast primary channels that are affiliated with major networks. In addition to the primary channels, the majority of our stations also broadcast secondary digital channels that are affiliated with various networks. The terms of our affiliations with these networks are governed by network affiliation agreements. Each affiliation agreement provides the affiliated station with the right to broadcast all programs transmitted by the affiliated network. Our affiliation agreements expire at various dates through January 1, 2016.

The following table provides information about all of our owned and operated television stations.

			Primary Channels		Secondary Channels			Primary Channel	
DMA Rank (a)	Market	Station	Affil.(b)	Exp. (c)	Affil.(b)	Exp. (c)	Broadcast License Expiration	Station Rank in DMA (d)	News Rank in DMA (e)
61	Knoxville, TN	WVLT	CBS	12/31/14	MyNet.	10/04/14	08/01/05 (i)	2	2
64	Lexington, KY	WKYT	CBS	12/31/14	CW	09/17/14	08/01/05 (i)	1	1
65	Charleston/Huntington, WV	WSAZ	NBC	03/31/12	MyNet.	10/04/14	10/01/12	1	1
67	Wichita/Hutchinson, KS	KAKE	ABC	12/31/13	NA	NA	06/01/06 (i)	2	2
	(Colby, KS)	KLBY (f)	ABC	12/31/13	NA	NA	06/01/06 (i)	2	2
	(Garden City, KS)	KUPK (f)	ABC	12/31/13	NA	NA	06/01/06 (i)	2	2
76	Omaha, NE	WOWT	NBC	03/31/12	News	NA	06/01/06 (i)	2	1
85	Madison, WI	WMTV	NBC	03/31/12	News	NA	12/01/05 (i)	2	2
88	Waco-Temple-Bryan, TX	KWTX	CBS	12/31/14	CW	08/31/14	08/01/06 (i)	1	1
	(Bryan, TX)	KBTX (g)	CBS	12/31/14	CW	08/31/14	08/01/06 (i)	1	1
90	Colorado Springs, CO	KKTV	CBS	12/31/14	MyNet.	10/04/14	04/01/06 (i)	1	3
97	South Bend, IN	WNDU	NBC	03/31/12	NA	NA	08/01/13	2	1
99	Greenville/New Bern/Washington, NC	WITN	NBC	03/31/12	MyNet.	10/04/14	12/01/04 (i)	1	1
105	Lincoln/Hastings/Kearney, NE	KOLN	CBS	12/31/14	MyNet.	10/04/14	06/01/06 (i)	1	1
	Grand Island, NE	KGIN (h)	CBS	12/31/14	MyNet.	10/04/14	06/01/06 (i)	1	1
106	Tallahassee, FL/Thomasville, GA	WCTV	CBS	12/31/14	MyNet.	10/04/12	04/01/13	1	1
108	Reno, NV	KOLO	ABC	12/31/13	USN	12/31/13	10/01/06 (i)	2	1
111	Augusta, GA	WRDW	CBS	12/31/14	MyNet. TCN	10/04/14 01/14/13	04/01/13	1	1
115	Lansing, MI	WILX	NBC	03/31/12	News	NA	10/01/05 (i)	1	1
128	La Crosse/Eau Claire, WI	WEAU	NBC	03/31/12	News	NA	12/01/05 (i)	1	1
134	Rockford, IL	WIFR	CBS	12/31/14	News	NA	12/01/05 (i)	1	1
135	Wausau/Rhinelander, WI	WSAW	CBS	12/31/14	MyNet. News	10/04/14 NA	12/01/05 (i)	1	2
136	Topeka, KS	WIBW	CBS	12/31/14	MyNet.	10/04/14	06/01/06 (i)	1	1
150	Albany, GA	WSWG	CBS	12/31/14	MyNet. CW	10/04/14 08/31/15	04/01/13	3	NA (j)
159	Panama City, FL	WJHG	NBC	03/31/12			02/01/05 (i)	1	1

CW	09/17/12
MyNet.	10/04/14

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DMA Rank (a)	Market	Station	Primary Channels Affil.(b)	Primary Channels Exp. (c)	Secondary Channels Affil.(b)	Secondary Channels Exp. (c)	Broadcast License Expiration	Primary Channel Station Rank in DMA (d)	Primary Channel News Rank in DMA (e)
161	Sherman,TX/Ada, OK	KXII	CBS	12/31/14	FOX MyNet.	06/30/14 10/04/14	08/01/06 (i)	1	1
169	Dothan, AL	WTVY	CBS	12/31/14	CW MyNet.	09/01/12 10/04/14	04/01/13	1	1
178	Harrisonburg, VA	WHSV	ABC	12/31/13	ABC FOX MyNet.	12/31/13 06/30/14 10/04/14	10/01/12	1	1
182	Bowling Green, KY	WBKO	ABC	12/31/13	FOX CW	06/30/14 08/31/13	08/01/05 (i)	1	1
183	Charlottesville, VA	WCAV	CBS	12/31/14	News	NA	10/01/12	2	2
		WVAW	ABC	12/31/13	NA	NA	10/01/12	3	4
		WAHU	FOX	06/30/14	MyNet.	10/04/14	10/01/12	4	3
184	Grand Junction, CO	KKCO	NBC	01/01/16	NA	NA	04/01/06 (i)	1	1
186	Meridian, MS	WTOK	ABC	12/31/13	CW MyNet.	09/15/12 10/04/14	06/01/05 (i)	1	1
192	Parkersburg, WV	WTAP	NBC	03/31/12	FOX MyNet.	06/30/14 10/04/14	10/01/04 (i)	1	1
(k)	Hazard, KY	WYMT	CBS	12/31/14	NA	NA	08/01/05 (i)	1	1

NA Not applicable

(a) DMA rank for the 2011-2012 television season based on information published by Nielsen.

(b) Indicates network affiliations. All primary channels and the majority of secondary channels broadcast by the stations are affiliated with a network. We also have independent secondary channels broadcasting local news and weather. Such channels are identified as News.

(c) Indicates approximate expiration dates of network affiliation agreements.

(d) Based on Nielsen data for the February, May, July and November 2011 rating periods.

(e) Based on Nielsen data for the February, May, July and November 2011 rating periods for various news programs.

(f) KLBY-TV and KUPK-TV are satellite stations of KAKE-TV under FCC rules. The primary channels of each of KLBY-TV and KUPK-TV simulcast the primary channel of KAKE-TV and may offer some locally originated programming, such as local news.

(g) KBTX-TV is a satellite station of KWTX-TV under FCC rules. The primary channel of KBTX-TV simulcasts the primary channel of KWTX-TV and may offer some locally originated programming, such as local news.

(h) KGIN-TV is a satellite station of KOLN-TV under FCC rules. The primary channel of KGIN-TV simulcasts the primary channel of KOLN-TV and may offer some locally originated programming, such as local news.

(i) We have filed a license renewal application with the FCC for this station, and that renewal application remains pending. We anticipate that all pending renewal applications will be granted in due course.

(j) This station does not currently broadcast local news that is specific to the Albany, Georgia market.

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(k) The rankings shown for WYMT-TV are based on Nielsen data for the trading area (an area not defined as a distinct DMA) for the four most recent reporting periods, which are November 2010, February 2011, May 2011 and November 2011.

Station Network Affiliations

The Big Four major broadcast networks, ABC, NBC, CBS and FOX, dominate broadcast television in terms of the amount of viewership their original programming attracts. The Big Three major broadcast networks of ABC, NBC, and CBS provide their respective network affiliates with a majority of the programming broadcast each day. FOX, CW and MyNetworkTV provide their affiliates with a smaller portion of each day s programming compared to the Big Three networks. The CW Plus network generally provides programming for the entire broadcast day.

Most successful commercial television stations obtain their brand identity from locally produced news programs. Notwithstanding this, however, the affiliation of a station s channels with one of the four major networks can have a significant impact on the station s programming, revenues, expenses and operations. A typical network provides an affiliate with all of its programming in exchange for a substantial majority of the advertising time available for sale during the airing of the network programs. The network then sells this advertising time and retains the revenues. The affiliate sells the remaining advertising availabilities within the network programming and non-network programming, and the affiliate retains most or all of such revenues from these sales. In seeking to acquire programming to supplement network-supplied programming, which is critical to maximizing affiliate revenue, affiliates compete primarily with other affiliates and independent stations in their markets as well as, in certain cases, various national non-broadcast networks (cable networks) that present competitive programming.

A television station may also acquire programming through barter arrangements. Under a barter arrangement, a national program distributor retains a fixed amount of advertising time within the program in exchange for the programming it supplies. The television station may pay a fixed fee for such programming.

We record revenue and expense for trade transactions involving the exchange of tangible goods or services with our customers. The revenue is recorded at the time the advertisement is broadcast and the expense is recorded at the time the goods or services are used. The revenue and expense associated with these transactions are based on the fair value of the assets or services received.

We do not account for barter revenue and related barter expense generated from network or syndicated programming as such amounts are not material. Furthermore, any such barter revenue recognized would then require the recognition of an equal amount of barter expense. The recognition of these amounts would have no effect upon net income (loss).

In contrast to a network-affiliated station, independent stations purchase or produce all of the programming they broadcast, generally resulting in higher programming costs. Independent stations, however, retain their entire inventory of advertising time and all related revenues. Affiliates of FOX, CW and MyNetworkTV must purchase or produce a greater amount of programming for their non-network time periods, generally resulting in higher programming costs. On the other hand, affiliates of FOX, CW and MyNetworkTV retain a larger portion of their advertising time inventory and the related revenues compared to Big Three affiliates.

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Competition

Television stations compete for audiences, certain programming (including news) and advertisers. Cable network programming is a significant competitor of broadcast television programming. However, no single cable programming network regularly attains audience levels exceeding a small fraction of those of any major broadcast network. Cable networks advertising share has increased due to the growth in the number of homes that subscribe to a pay-TV service from cable systems, direct broadcast satellite (DBS) systems, and other multi-channel video program distribution services (collectively, MVPDs). Despite increases in cable network viewership, over-the-air broadcasting remains the dominant distribution system for mass-market television advertising. Signal coverage and carriage on MVPD systems also materially affect a television station s competitive position.

Audience

Stations compete for audience based on broadcast program popularity, which has a direct effect on advertising rates. Networks supply a substantial portion of our affiliated stations daily programming. Affiliated stations depend on the performance of the network programs to attract viewers. There can be no assurance that any such current or future programming created by our affiliated networks will achieve or maintain satisfactory viewership levels. Stations program non-network time periods with a combination of locally produced news, public affairs and entertainment programming, including national news or syndicated programs purchased for cash, cash and barter, or barter only.

MVPD systems have significantly altered competition for audience in the television industry. Specifically, MVPD systems can increase a broadcasting station s competition for viewers by bringing into the market both cable networks and distant television station signals not otherwise available to the station s audience.

Other sources of competition for audiences, programming, and advertisers include internet websites, mobile applications and wireless carriers, direct-to-consumer video distribution systems, and home entertainment systems.

Recent developments by many companies, including internet service providers and internet website operators, are expanding the variety and quality of broadcast and non-broadcast video programming available to consumers via the internet. Internet companies have developed business relationships with companies that have traditionally provided syndicated programming, network television and other content. As a result, additional programming is becoming available through non-traditional methods, which can directly impact the number of TV viewers, and thus indirectly impact station rankings, popularity and revenue possibilities of our stations.

Programming

Competition for non-network programming involves negotiating with national program distributors, or syndicators, that sell first-run and rerun programming packages. Each station competes against the other broadcast stations in its market for exclusive access to off-network reruns (such as *Two And A Half Men*) and first-run programming (such as *Jeopardy*). Broadcast stations compete also for exclusive news stories and features. While cable networks generally do not compete with local stations for programming, some national cable networks from time to time have acquired programs that would have been offered to, or otherwise might have been broadcast by, local television stations.

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Advertising

Advertising revenues comprise the primary source of revenues for our stations. Our stations compete with other television stations for advertising revenues in their respective markets. Our stations also compete for advertising revenue with other media, such as newspapers, radio stations, magazines, outdoor advertising, transit advertising, yellow page directories, direct mail, internet websites, local cable and other MVPD systems. In the broadcasting industry, advertising revenue competition occurs primarily within individual markets.

Federal Regulation of Our Business

General

Under the Communications Act of 1934, as amended (the Communications Act), television broadcast operations such as ours are subject to the jurisdiction of the FCC. Among other things, the Communications Act empowers the FCC to: (i) issue, revoke and modify broadcasting licenses; (ii) regulate stations operations and equipment; and (iii) impose penalties for violations of the Communications Act or FCC regulations. The Communications Act prohibits the assignment of a license or the transfer of control of a licensee without prior FCC approval.

License Grant and Renewal

The FCC grants broadcast licenses to television stations for terms of up to eight years. Broadcast licenses are of paramount importance to the operations of our television stations. The Communications Act requires the FCC to renew a licensee s broadcast license if the FCC finds that: (i) the station has served the public interest, convenience and necessity; (ii) there have been no serious violations of either the Communications Act or the FCC s rules and regulations; and (iii) there have been no other violations which, taken together, would constitute a pattern of abuse. Historically the FCC has renewed broadcast licenses in substantially all cases. While we are not currently aware of any facts or circumstances that might prevent the renewal of our stations licenses at the end of their respective license terms, we cannot provide any assurances that any license will be renewed. Our failure to renew any licenses upon the expiration of any license term could have a material adverse effect on our business. Under the Communications Act, the term of a broadcast license is automatically extended pending the FCC s processing of a renewal application. For further information regarding the expiration dates of our stations current licenses and renewal application status, see the table under the heading Our Stations and Their Markets.

Media Ownership Restrictions and FCC Proceedings

The FCC s broadcast ownership rules affect the number, type and location of broadcast and newspaper properties that we may hold or acquire. The rules now in effect limit the common ownership, operation or control of, and attributable interests or voting power in: (i) television stations serving the same area; (ii) television stations and daily newspapers serving the same area; and (iii) television stations and radio stations serving the same area. The rules also limit the aggregate national audience reach of television stations that may be under common ownership, operation and control, or in which a single person or entity may hold an official position or have more than a specified interest or percentage of voting power. The FCC s rules also define the types of positions and interests that are considered attributable for purposes of the ownership limits, and thus also apply to our principals and certain investors.

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The FCC is required by statute to review all of its broadcast ownership rules every four years to determine if such rules remain necessary in the public interest. In 2007, the FCC adopted a Report and Order fulfilling the FCC s obligation to review its media ownership rules every four years. That Order left most of the FCC s existing ownership restrictions in place, but made modifications to the newspaper/broadcast cross-ownership restriction. A number of parties appealed the FCC s order; those appeals were consolidated in the United States Court of Appeals for the Third Circuit (Third Circuit). In May 2010, while these appeals were still pending, the FCC began a new comprehensive review of its broadcast ownership rules to determine whether the rules remain necessary in the public interest by releasing a Notice of Inquiry (NOI). The NOI sought comments on (1) whether the current rules continue to foster competition, localism, and diversity; (2) how to define, measure, and promote competition, localism and diversity; and (3) how to weigh these public interest goals if there is conflict between them. In July 2011, the Third Circuit vacated and remanded the Commission s 2007 changes to the newspaper/broadcast cross-ownership rule, but upheld the FCC s retention of the remainder of its media ownership rules. In December 2011, the FCC issued a Notice of Proposed Rulemaking (the 2011 NPRM) that addresses issues remanded by the Third Circuit. In addition, the 2011 NPRM requests comments on the FCC s proposals to leave the local TV ownership rule and local radio ownership rule largely intact; eliminate the radio/television cross-ownership rule; and presumptively permit waivers of the newspaper/broadcast cross-ownership ban in the 20 largest television markets. Finally, the 2011 NPRM requests comments on whether local news service agreements and/or shared services agreements should be considered attributable for purposes of applying the media ownership restrictions.

Local Television Ownership Rules

The FCC s 2007 actions generally reinstated the FCC s pre-2003 local television ownership rules. Under those rules, one entity may own two commercial television stations in a DMA as long as the Grade B contours of the stations do not overlap or, if they do, no more than one of those stations is ranked among the top four stations in the DMA and eight independently owned, full-power stations will remain in the DMA. Waivers of this rule may be available if at least one of the stations in a proposed combination qualifies, pursuant to specific criteria set forth in the FCC s rules, as failed, failing, or unbuilt. The 2011 NPRM proposes only minor modifications to the existing rule by eliminating the Grade B contour overlap portion of the existing rule. Additionally, the FCC is requesting comments on whether (i) to adopt a waiver standard that would allow certain television combinations in small markets, even between top-four stations, (ii) to consider multicasting in determining local television ownership limits, and (iii) to limit the ability of station owners to form dual network affiliations through multicasting multiple channels of programming within a single digital channel.

Cross Media Limits

The newspaper/broadcast cross-ownership rule generally prohibits one entity from owning both a commercial broadcast station and a daily newspaper in the same community. The radio/television cross-ownership rule allows a party to own one or two TV stations and a varying number of radio stations within a single market. The FCC s 2007 decision left the existing newspaper/broadcast and radio/television cross-ownership restrictions in place, but provided that the FCC would evaluate newly-proposed newspaper/broadcast combinations under a non-exhaustive list of public interest factors and apply positive or negative presumptions in specific circumstances. As noted above, the Third Circuit reversed and remanded the FCC s 2007 changes to the newspaper/broadcast cross-ownership rule, leaving the original prohibition in place. The 2011 NPRM proposes a rule based largely on the FCC s 2007 decision and seeks comment on its proposal to adopt a newspaper/broadcast cross-ownership rule that would presumptively permit waivers of the newspaper/broadcast cross-ownership restrictions in the top 20 DMAs when the television station is not ranked among the top four television stations in the DMA and at least eight independently owned and operated major media voices remain in the DMA.

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National Television Station Ownership Rule

The maximum percentage of U.S. households that a single owner can reach through commonly owned television stations is 39 percent. This limit was specified by Congress in 2004 and is not affected by the December 2007 FCC decision or subsequent appellate action. The FCC applies a 50 percent discount for ultra-high frequency (UHF) stations, but the FCC indicated in the 2007 decision that it will conduct a separate proceeding to determine how or whether the UHF discount will operate in the future.

The FCC s media ownership proceedings are on-going and, in many cases, are or will be subject to further judicial and potentially Congressional review. We cannot predict the outcome of any of these current or potential proceedings.

Attribution Rules

Under the FCC s ownership rules, a direct or indirect purchaser of certain types of our securities could violate FCC regulations if that purchaser owned or acquired an attributable interest in other media properties in the same areas as one or more of our stations. Pursuant to FCC rules, the following relationships and interests are generally considered attributable for purposes of broadcast ownership restrictions: (i) all officers and directors of a corporate licensee and its direct or indirect parent(s); (ii) voting stock interests of at least five percent; (iii) voting stock interests of at least 20 percent, if the holder is a passive institutional investor (such as an investment company, bank, or insurance company); (iv) any equity interest in a limited partnership or limited liability company, unless properly insulated from management activities; (v) equity and/or debt interests that in the aggregate exceed 33 percent of a licensee s total assets, if the interest holder supplies more than 15 percent of the station s total weekly programming or is a same-market broadcast company or daily newspaper publisher; (vi) time brokerage of a broadcast station by a same-market broadcast company; and (vii) same-market radio joint sales agreements.

Management services agreements and other types of shared services arrangements between same-market stations that do not include attributable time brokerage or joint sales components generally are not deemed attributable under the FCC s current rules and policies. As noted above, however, the FCC in its 2011 NPRM requested comment on whether local news service agreements and/or shared services agreements should be considered attributable for purposes of applying the media ownership rules.

To our knowledge, no officer, director or five percent stockholder currently holds an attributable interest in another television station, radio station or daily newspaper that is inconsistent with the FCC s ownership rules and policies or with our ownership of our stations.

Alien Ownership Restrictions

The Communications Act restricts the ability of foreign entities or individuals to own or hold interests in broadcast licenses. The Communications Act bars the following from holding broadcast licenses: foreign governments, representatives of foreign governments, non-citizens, representatives of non-citizens, and corporations or partnerships organized under the laws of a foreign nation. Foreign individuals or entities, collectively, may directly or indirectly own or vote no more than 20 percent of the capital stock of a licensee or 25 percent of the capital stock of a corporation that directly or indirectly controls a licensee. The 20 percent limit on foreign ownership of a licensee may not be waived. While the FCC has the discretion to permit foreign ownership in excess of 25 percent in a corporation controlling a licensee, it has rarely done so in the broadcast context.

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We serve as a holding company of wholly owned subsidiaries, one of which is a licensee for our stations. Therefore we may be restricted from having more than one-fourth of our stock owned or voted directly or indirectly by non-citizens, foreign governments, representatives of non-citizens or foreign governments, or foreign corporations.

Programming and Operations

Rules and policies of the FCC and other federal agencies regulate certain programming practices and other areas affecting the business or operations of broadcast stations.

The Children s Television Act of 1990 limits commercial matter in children s television programs and requires stations to present educational and informational children s programming. Broadcasters are effectively required through license renewal processing guidelines to provide at least three hours of children s educational programming per week on their primary channels and on each secondary channel. In October 2009, the FCC issued a Notice of Inquiry (NOI) seeking comment on a broad range of issues related to children s usage of electronic media and the current regulatory landscape that governs the availability of electronic media to children. The NOI remains pending, and we cannot predict what recommendations or further action, if any, will result from it.

In 2007, the FCC adopted an order imposing new public filing and public interest reporting requirements on broadcasters. Then in October 2011, the FCC adopted an Order on Reconsideration and Further Notice of Proposed Rulemaking (FNPRM), which vacated that 2007 decision*,* conceding that the broad public interest reporting obligation proposed in that order (FCC Form 355) would be overly burdensome for broadcasters. Additionally, the FNPRM proposes to require television stations to (1) place their public files online at a site hosted by the FCC, (2) disclose certain sponsorship identification information online, and (3) post copies of shared services agreements online.

In November 2011, the FCC issued an NOI seeking comments on a new standardized disclosure form to replace the current issues and programs list and the previously proposed and rejected Form 355. The NOI proposes to require television broadcasters to report public interest programming broadcast during a sample or composite week in the previous quarter on a standardized, electronically filed form. The Commission also seeks comment on requiring disclosure of whether (1) the reported program contains closed captioning and video descriptions, (2) the program was produced pursuant to shared services agreement, and (3) the program contains sponsorship identifications.

In 2007, the FCC issued a Report on Broadcast Localism and Notice of Proposed Rulemaking (the Report). The Report tentatively concluded that broadcast licensees should be required to have regular meetings with permanent local advisory boards to ascertain the needs and interests of their communities. The Report also tentatively adopted specific renewal application processing guidelines that would require broadcasters to air a minimum amount of local programming. The Report sought public comment on two additional rule changes that would impact television broadcasters. These rule changes would restrict a broadcaster s ability to locate a station s main studio outside the community of license and the right to operate a station remotely. To date, the FCC has not issued a decision adopting rules to implement any of the initiatives in the Report, and we cannot predict whether or when the FCC might act to codify any such initiatives.

Over the past several years, the FCC has increased its enforcement efforts regarding broadcast indecency and profanity. In 2006, the statutory maximum fine for broadcasting indecent material increased from $32,500 to $325,000 per incident. Several judicial proceedings that review the FCC s indecency enforcement are pending at this time. The outcomes of these proceedings could affect future FCC policies in this area, and we are unable to predict the outcome of any such judicial proceeding, which could have a material adverse effect on our business.

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EEO Rules

The FCC s Equal Employment Opportunity (EEO) rules impose job information dissemination, recruitment, documentation and reporting requirements on broadcast station licensees. Broadcasters are subject to random audits to ensure compliance with the EEO rules and may be sanctioned for noncompliance.

MVPD Retransmission of Local Television Signals

Under the Communications Act and FCC regulations, each television station generally has a so-called must-carry right to carriage of its primary channels on all MVPD systems serving their market. Each commercial television station may elect between invoking its must carry right or invoking a right to prevent an MVPD system from retransmitting the station s primary channel without its consent (retransmission consent). Stations must make this election by October 1 every three years, and stations most recently made such elections by October 1, 2011. Such elections are binding throughout the three-year cycle that commences on the subsequent January 1. The current carriage cycle commenced on January 1, 2012, and ends on December 31, 2014. Our stations have generally elected retransmission consent and have entered into retransmission consent contracts with virtually all MVPD systems serving their markets.

In March 2011, the FCC issued a Notice of Proposed Rulemaking (NPRM) to consider changes to its rules governing the negotiation of retransmission consent agreements. The FCC concluded that it lacked statutory authority to impose mandatory arbitration or interim carriage obligations in the event of a dispute between broadcasters and pay television operators. The FCC, however, sought comment on whether it should (1) strengthen the existing regulatory provision requiring broadcasters and MVPDs to negotiate retransmission consent in good faith, (2) enhance notice obligations to consumers of potential disruptions in service, and/or (3) extend the prohibition on ceasing carriage of a broadcast station s signal during an audience measurement period to DBS systems. The NPRM also questioned whether the Commission should eliminate the network non-duplication and syndicated exclusivity rules. The Commission has not yet issued a decision in this proceeding, and we cannot predict the outcome of any FCC regulatory action in this regard.

Broadcast Spectrum

On March 16, 2010, the FCC delivered to a National Broadband Plan to Congress. The National Broadband Plan, inter alia, makes recommendations regarding the use of spectrum currently allocated to television broadcasters, including seeking the voluntary surrender of certain portions of the television broadcast spectrum and repacking the currently allocated spectrum to make portions of that spectrum available for other wireless communications services. If some or all of our television stations are required to change frequencies or reduce the amount of spectrum they use, our stations could incur substantial conversion costs, reduction or loss of over-the-air signal coverage or an inability to provide high definition programming and additional program streams, including mobile video services. Prior to implementation of the proposals contained in the National Broadband Plan, further action by the FCC or Congress or both is necessary.

In late February 2012, Congress passed and the President signed legislation that, among other things, grants the FCC authority to conduct auctions of certain spectrum currently used by television broadcasters. The so-called incentive auctions would have two parts. First, the FCC would conduct a

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reverse auction by which a television broadcaster may volunteer, in return for payment, to relinquish its station s spectrum by surrendering its license; relinquish part of its spectrum and thereafter share spectrum with another station; or modify a UHF channel license to a VHF channel license. Second, the FCC would conduct a forward auction of the relinquished auction to new users. The FCC must complete the reverse auction and the forward auction by September 30, 2022. To accommodate the spectrum reallocation to new users, the FCC may require that television stations that did not participate in the auction modify their transmission facilities. The legislation authorizes the FCC to reimburse stations for reasonable relocation costs up to a total across all stations of $1.75 billion. In addition, the legislation directs the FCC to preserve a station s coverage area and population served, and it prevents the FCC from requiring that a station involuntarily move from the UHF band to the VHF band or from the high VHF band to the low VHF band. The FCC will need to adopt regulations to implement the legislation. We cannot predict the outcome of FCC regulatory action in this regard.

The foregoing does not purport to be a complete summary of the Communications Act, other applicable statutes, or the FCC s rules, regulations or policies. Proposals for additional or revised regulations and requirements are pending before, are being considered by, and may in the future be considered by, Congress and federal regulatory agencies from time to time. We cannot predict the effect of any existing or proposed federal legislation, regulations or policies on our business. Also, several of the foregoing matters are now, or may become, the subject of litigation, and we cannot predict the outcome of any such litigation or the effect on our business.

Employees

As of December 31, 2011, we had 1,945 full-time employees and 160 part-time employees, of which 94 full-time employees and 6 part-time employees were represented by unions. We consider relations with our employees to be good.

Available Information

Our web address is http://www.gray.tv. We make the following reports filed or furnished, as applicable, with the Securities and Exchange Commission (the SEC) available, free of charge, on our website under the heading SEC Filings , our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to the foregoing reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (the Exchange Act). The foregoing reports are made available on our website as soon as practicable after they are filed with, or furnished to, the SEC. The information found on our website is not incorporated by reference or part of this or any other report we file with or furnish to the SEC.

We have adopted a Code of Ethics (the Code) that applies to all of our directors, executive officers and employees. The Code is available on our website at http://www.gray.tv under the heading of Corporate Governance. If any waivers of the Code are granted, the waivers will be disclosed in an SEC filing on Form 8-K.

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Item 1A. Risk Factors.

Risks Related to Our Business

The success of our business is dependent upon advertising revenue, which is seasonal and cyclical, and will also fluctuate as a result of a number of other factors, some of which are beyond our control.

Our main source of revenue is the sale of advertising time and space. Our ability to sell advertising time and space depends on, among other things:

- economic conditions in the areas where our stations are located and in the nation as a whole;
- the popularity of the programming offered by our television stations;
- changes in the population demographics in the areas where our stations are located;
- local and national advertising price fluctuations, which can be affected by the availability of programming, the popularity of programming, and the relative supply of and demand for commercial advertising;
- our competitors activities, including increased competition from other advertising-based mediums, particularly cable networks, MVPD operators, and the internet;
- the duration and extent of any network preemption of regularly scheduled programming for any reason;
- decisions by advertisers to withdraw or delay planned advertising expenditures for any reason;
- labor disputes or other disruptions at major national advertisers, programming providers or networks; and
- other factors beyond our control.

Our results are also subject to seasonal and cyclical fluctuations that we expect to continue. Seasonal fluctuations typically result in higher broadcast operating income in the second and fourth quarters than in the first and third quarters of each year. This seasonality is primarily attributable to (i) advertisers increased expenditures in the spring and in anticipation of the holiday season spending and (ii) an increase in viewership during this period. In addition, we typically experience fluctuations in our revenue between even and odd numbered years. In years in which there are impending elections for various state and national offices, which primarily occur in even numbered years, political advertising revenue tends to increase, often significantly, and particularly during presidential election years. Also, our NBC network affiliated stations typically experience increased viewership and revenue during coverage of Olympic Games, which also occur in even numbered years. As a result of the seasonality and cyclicality of our revenue, and the historically significant increase in our revenue during even-numbered years, investors are cautioned that it has been, and is expected to remain, difficult to engage in period-over-period comparisons of our revenue and results of operations.

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Continued uncertain financial and economic conditions may have a further adverse impact on our business, results of operations or financial condition.

Current financial and economic conditions continue to be uncertain and the continuation or worsening of such conditions could reduce consumer confidence and have an adverse effect on our business, results of operations and/or financial condition. If consumer confidence were to decline, this decline could negatively affect our advertising customers businesses and their advertising budgets. In addition, continued volatile economic conditions could have a negative impact on our industry or the industries of our customers who advertise on our stations, resulting in reduced advertising sales. Furthermore, it may be possible that actions taken by any governmental or regulatory body for the purpose of stabilizing the economy or financial markets will not achieve their intended effect. In addition to any negative direct consequences to our business or results of operations arising from these financial and economic developments, some of these actions may adversely affect financial institutions, capital providers, advertisers or other consumers on whom we rely, including for access to future capital or financing arrangements necessary to support our business. Our inability to obtain financing in amounts and at times necessary could make it more difficult or impossible to meet our obligations or otherwise take actions in the best interests of Gray.

We are a holding company with no material independent assets or operations and we depend on our subsidiaries for cash.

We are a holding company with no material independent assets or operations, other than our investments in our subsidiaries. Because we are a holding company, we are dependent upon payment of dividends, distributions, loans or advances to us by our subsidiaries to fund our obligations. These payments could be subject to dividend or other payment restrictions under applicable laws in the jurisdictions in which our subsidiaries operate. Payments by our subsidiaries are also contingent upon the subsidiaries earnings. If we are unable to obtain sufficient funds from our subsidiaries to fund our obligations, our financial condition and ability to meet our obligations may be adversely affected.

We have substantial debt and have the ability to incur additional debt. The principal and interest payment obligations on such debt may restrict our future operations and impair our ability to meet our obligations.

As of December 31, 2011, we had approximately $832.2 million aggregate principal amount of outstanding indebtedness (excluding intercompany indebtedness). In addition, the terms of our senior credit facility and the indenture governing our 10 $^{1}/2$% senior secured second lien notes due 2015 (the Notes) permit us to incur additional indebtedness, subject to our ability to meet certain borrowing conditions.

Our substantial debt may have important consequences. For instance, it could:

- make it more difficult for us to satisfy our financial obligations;
- require us to dedicate a substantial portion of any cash flow from operations to the payment of interest and principal due under our debt, which would reduce funds available for other business purposes, including capital expenditures and acquisitions;
- place us at a competitive disadvantage compared to some of our competitors that may have less debt and better access to capital resources; and
- limit our ability to obtain additional financing required to fund working capital and capital expenditures and for other general corporate purposes.

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Our ability to service our significant financial obligations depends on our ability to generate significant cash flow. This is partially subject to general economic, financial, competitive, legislative, regulatory, and other factors that are beyond our control. We cannot assure you that our business will generate cash flow from operations, that future borrowings will be available to us under our senior credit facility, or that we will be able to complete any necessary financings, in amounts sufficient to enable us to fund our operations or pay our debts and other obligations, or to fund other liquidity needs. If we are not able to generate sufficient cash flow to service our obligations, we may need to refinance or restructure our debt, sell assets, reduce or delay capital investments, or seek to raise additional capital. Additional debt or equity financing may not be available in sufficient amounts, at times or on terms acceptable to us, or at all. If we are unable to implement one or more of these alternatives, we may not be able to service our debt or other obligations, which could result in us being in default thereon, in which circumstances our lenders could cease making loans to us, and lenders or other holders of our debt could accelerate and declare due all outstanding obligations due under the respective agreements, which could have a material adverse effect on us. In addition, the current volatility in the capital markets may also impact our ability to obtain additional financing, or to refinance our existing debt, on terms or at times favorable to us.

The agreements governing our various debt obligations impose restrictions on our business and limit our ability to undertake certain corporate actions.

The agreements governing our various debt obligations, including the indenture governing the Notes and the agreements governing our senior credit facility, include covenants imposing significant restrictions on our business. These restrictions may affect our ability to operate our business and may limit our ability to take advantage of potential business opportunities as they arise. These covenants place restrictions on our ability to, among other things:

- incur additional debt;
- declare or pay dividends, redeem stock or make other distributions to stockholders;
- make investments or acquisitions;
- create liens or use assets as security in other transactions;
- issue guarantees;
- merge or consolidate, or sell, transfer, lease or dispose of substantially all of our assets;
- amend our articles of incorporation or bylaws;
- engage in transactions with affiliates; and
- purchase, sell or transfer certain assets.

Our senior credit facility also requires us to comply with a number of financial ratios and covenants. Our ability to comply with these agreements may be affected by events beyond our control, including prevailing economic, financial and industry conditions. These covenants could have an adverse effect on

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our business by limiting our ability to take advantage of financing, merger and acquisition or other corporate opportunities. The breach of any of these covenants or restrictions could result in a default under the indenture governing our Notes or our senior credit facility. An event of default under any of our debt agreements could permit some of our lenders, including the lenders under our senior credit facility, to declare all amounts borrowed from them, together with accrued and unpaid interest, to be immediately due and payable, which could, in turn, trigger defaults under other debt obligations and the termination of commitments of the lenders to make further extensions of credit under our senior credit facility. If we were unable to repay debt to our lenders, or were otherwise in default under any provision governing our outstanding secured debt obligations, our secured lenders could proceed against us and the subsidiary guarantors and against the collateral securing that debt.

We have a significant amount of indebtedness and other obligations that become due over a relatively short period of time.

We have a significant amount of indebtedness and other obligations that will, or may, become due between March 19, 2014 and June 30, 2015. These obligations include amounts outstanding under our senior credit facility, our Notes and any potential exercise of optional redemption rights held by the holders of our Series D Perpetual Preferred Stock, which those holders may exercise at any time from and after June 30, 2015. Our inability to repay or refinance our indebtedness and other obligations as they become due, or the violation of any covenants which may impair, restrict or limit our ability to do so, could have a material adverse effect on our financial condition and results of operations. Furthermore, in the event that we were unable to repay or refinance our indebtedness or other obligations, and a bankruptcy case were to be commenced under the bankruptcy code, we could be subject to claims, with respect to any payments made within 90 days prior to commencement of such a case, that we were insolvent at the time any such payments were made and that all or a portion of such payments, which could include repayments of amounts due under the Notes, might be deemed to constitute a preference, under the bankruptcy code, and that such payments should be voided by the bankruptcy court and recovered from the recipients for the benefit of the entire bankruptcy estate.

Our variable rate indebtedness subjects us to interest rate risk, which could cause our annual debt service obligations to increase significantly.

Borrowings under our senior credit facility are at variable rates of interest and expose us to interest rate risk. If interest rates increase, our debt service obligations on our variable rate indebtedness would increase even though the amount borrowed remained the same, and our net income and cash available to service our obligations would decrease.

We must purchase television programming in advance of knowing whether a particular show will be popular enough for us to recoup our costs.

One of our most significant costs is for the purchase of television programming. If a particular program is not sufficiently popular among audiences in relation to the cost we pay for such program, we may not be able to sell enough related advertising time for us to recoup the costs we pay to broadcast the program. We also must usually purchase programming several years in advance, and may have to commit to purchase more than one year s worth of programming, resulting in the incurrence of significant costs in advance of our receipt of any related revenue. We may also replace programs that are performing poorly before we have recaptured any significant portion of the costs we incurred in obtaining such programming or fully expensed the costs for financial reporting purposes. Any of these factors could reduce our profits, result in the incurrence of impairment charges or otherwise cause our costs to escalate relative to our revenue.

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We are highly dependent upon our network affiliations, and may lose a large amount of television programming if a network (i) terminates its affiliation with us, (ii) significantly changes the economic terms and conditions of any future affiliation agreements with us or (iii) significantly changes the type, quality or quantity of programming provided to us under an affiliation agreement.

Our business depends in large part on the success of our network affiliations. Each of our stations is affiliated with at least one major network pursuant to affiliation agreements. Each affiliation agreement provides the affiliated station with the right to broadcast all programs transmitted by the affiliated network. Our affiliation agreements expire at various dates through January 1, 2016.

If we cannot enter into affiliation agreements to replace any expiring agreements, we would no longer be able to carry the affiliated network s programming. This loss of programming would require us to seek to obtain replacement programming. Such replacement programming may involve higher costs and may not be as attractive to our target audiences, thereby reducing our ability to generate advertising revenue. Furthermore, our concentration of CBS and/or NBC affiliates makes us particularly sensitive to adverse changes in our business relationship with, and the general success of, CBS and/or NBC.

We can give no assurance that any future affiliation agreements would have economic terms and conditions equivalent to or more advantageous to us than our current agreements. Among other things, one or more networks may require that we pay compensation in exchange for providing our stations with programming and/or for permitting MVPD retransmission of network programming via our stations. If in the future a network or networks imposed more adverse economic terms upon us, such event or events could have a material adverse effect on our business and results of operations.

In addition, if we are unable to renew or replace any existing affiliation agreements, we may be unable to satisfy certain obligations under our existing or any future retransmission consent agreements with MVPDs and/or to secure payment of retransmission consent fees under such agreements. Furthermore, if in the future a network limited or removed our ability to retransmit network programming to MVPDs, we may be unable to satisfy certain obligations or criteria for fees under any existing or any future retransmission consent agreements. In either case, such an event could have a material adverse effect on our business and results of operations.

We are also dependent upon our retransmission consent agreements with MVPDs, and we cannot predict the outcome of potential regulatory changes to the retransmission consent regime.

We are also dependent, in significant part, on our retransmission consent agreements. A significant number of our existing retransmission consent agreements were renewed in 2011, with the remaining retransmission consent agreements set to expire through 2014. No assurances can be provided that we will be able to renegotiate all of such agreements on favorable terms, on a timely basis, or at all. The failure to renegotiate such agreements could have a material adverse effect on our business and results of operations.

Our ability to successfully negotiate future retransmission consent agreements may be hindered by potential legislative or regulatory charges to the framework under which these agreements are negotiated. In March 2011, the FCC issued a Notice of Proposed Rulemaking (NPRM) to consider changes to its rules governing the negotiation of retransmission consent agreements. The FCC concluded that it lacked

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statutory authority to impose mandatory arbitration or interim carriage obligations in the event of a dispute between broadcasters and pay television operators. The FCC, however, sought comment on whether it should (1) strengthen existing regulatory provision requiring broadcasters and MVPDs to negotiate retransmission consent in good faith, (2) enhance notice obligations to consumers of potential disruptions in service, and/or (3) extend the prohibition on ceasing carriage of a broadcast station s signal during an audience measurement period to DBS systems. The NPRM also questioned whether the Commission should eliminate the network non-duplication and syndicated exclusivity rules. The Commission has not yet issued a decision in this proceeding, and we cannot predict the outcome of any FCC regulatory action in this regard.

We operate in a highly competitive environment. Competition occurs on multiple levels (for audiences, programming and advertisers) and is based on a variety of factors. If we are not able to successfully compete in all relevant aspects, our revenue will be materially adversely affected.

As described elsewhere herein, television stations compete for audiences, certain programming (including news) and advertisers. Signal coverage and carriage on MVPD systems also materially affect a television station s competitive position. With respect to audiences, stations compete primarily based on broadcast program popularity. We cannot provide any assurances as to the acceptability by audiences of any of the programs we broadcast. Further, because we compete with other broadcast stations for certain programming, we cannot provide any assurances that we will be able to obtain any desired programming at costs that we believe are reasonable. Cable network programming, combined with increased access to cable and satellite TV, has become a significant competitor for broadcast television programming viewers. Cable networks advertising share has increased due to the growth in MVPD penetration (the percentage of television households that are connected to an MVPD system), which reduces broadcast television viewers. Further increases in the advertising share of cable networks could materially adversely affect the advertising revenue of our television stations.

In addition, technological innovation and the resulting proliferation of programming alternatives, such as internet websites, mobile apps and wireless carriers, direct-to-consumer video distribution systems, and home entertainment systems have further fractionalized television viewing audiences and resulted in additional challenges to revenue generation.

Our inability or failure to broadcast popular programs, or otherwise maintain viewership for any reason, including as a result of significant increases in programming alternatives, could result in a lack of advertisers, or a reduction in the amount advertisers are willing to pay us to advertise, which could have a material adverse effect on our business, financial condition and results of operations.

Our dependence upon a limited number of advertising categories could adversely affect our business.

We derive a material portion of our advertising revenue from the automotive and restaurant industries. In 2011, we earned approximately 21% and 10% of our total broadcast advertising revenue from the automotive and restaurant categories, respectively. In 2010, we earned approximately 17% and 9% of our total broadcast advertising revenue from the automotive and restaurant categories, respectively. Our business and operating results could be materially adversely affected if automotive or restaurant-related advertising revenue decreased. 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 medical, communications, furniture and appliances, entertainment, financial services, professional services or retail industries.

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Any potential hostilities or terrorist attacks, or similar events leading to broadcast interruptions, may affect our revenues and results of operations.

If the United States engages in additional foreign hostilities, experiences a terrorist attack or experiences any similar event resulting in interruptions to regularly scheduled broadcasting, we may lose advertising revenue and/or incur increased expenses. Lost revenue and increased expenses may be due to pre-emption, delay or cancellation of advertising campaigns, and increased costs of covering such events. We cannot predict the (i) extent or duration of any future disruption to our programming schedule, (ii) amount of advertising revenue that would be lost or delayed or (iii) amount by which our broadcasting expenses would increase as a result. Any such loss of revenue and increased expenses could negatively affect our future results of operations.

We have, in the past, incurred impairment charges on our goodwill and/or broadcast licenses, and any such future charges may have a material effect on the value of our total assets.

As of December 31, 2011, the book value of our broadcast licenses was $819.0 million and the book value of our goodwill was $170.5 million, in comparison to total assets of $1.2 billion. Not less than annually, and more frequently if necessary, we are required to evaluate our goodwill and broadcast licenses to determine if the estimated fair value of these intangible assets is less than book value. If the estimated fair value of these intangible assets is less than book value, we will be required to record a non-cash expense to write-down the book value of the intangible asset to the estimated fair value. We cannot make any assurances that any required impairment charges will not have a material effect on our total assets.

Our operating and financial flexibility is limited by the terms of the Series D perpetual preferred stock.

Our Series D perpetual preferred stock prevents us from taking certain actions and requires us to comply with certain requirements. Among other things, this includes limitations on:

- additional indebtedness;
- liens;
- amendments to our by-laws and articles of incorporation;
- our ability to issue equity securities having liquidation preferences senior or equivalent to the liquidation preferences of the Series D perpetual preferred stock;
- mergers and the sale of assets;
- guarantees;
- investments and acquisitions;
- payment of dividends and the redemption of our capital stock; and

related-party transactions.

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These restrictions may prevent us from taking action that could increase the value of our business or may require actions that decrease the value of our business.

We do not currently pay cash dividends on either class of our common stock, and have not paid certain dividends which have accumulated on our Series D Perpetual Preferred Stock. To the extent a potential investor ascribes value to a dividend paying stock, the value of our stock may be correspondingly reduced.

Our board of directors has not declared a cash or stock dividend on our common stock or Class A common stock since the third quarter of 2008. We can provide no assurance when or if any future dividends will be declared on either class of common stock.

Except for the payment of dividends in connection with our repurchase of certain shares of our Series D Perpetual Preferred Stock in privately negotiated transactions from time to time, we have deferred the cash payment of our preferred stock dividends earned thereon since October 1, 2008. As a result of at least three consecutive cash dividend payments on the Series D Perpetual Preferred Stock remaining unfunded, the dividend rate on such stock has increased from 15.0% per annum to 17.0% per annum. Our Series D Perpetual Preferred Stock dividend began accruing at 17.0% per annum on July 16, 2009 and will accrue at that rate as long as at least three consecutive cash dividend payments remain unfunded.

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.

As a result, if and to the extent an investor ascribes value to a dividend-paying stock, the value of our common stock and Class A common stock may be correspondingly reduced.

We may be unable to maintain or increase our internet advertising revenue, which could have a material adverse effect on our business and operating results.

We generate advertising revenue from the sale of advertisements on our internet sites. Our ability to maintain or increase this advertising revenue is largely dependent upon the number of users actively visiting our internet sites. We also must increase user engagement with our internet sites in order to increase our advertising revenue. In addition, internet advertising techniques are evolving, and if our technology and advertisement serving techniques do not evolve to meet the needs of advertisers, our advertising revenue could decline. Changes in our business model, advertising inventory or initiatives could also cause a decrease in our internet advertising revenue.

In addition, internet advertisements are reportedly becoming a means to distribute viruses over the internet and obtain users private information. If this practice becomes more prevalent, it could result in consumers becoming less inclined to click through online advertisements, which could adversely affect the demand for internet advertising. We do not have long-term agreements with most of our internet advertisers. Any termination, change or decrease in our advertising relationships could have a material adverse effect on our revenue and profitability. If we do not maintain or increase our advertising revenue, our business, results of operations and financial condition would be materially adversely affected.

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If we are unable to protect our domain names, our reputation and brands could be adversely affected.

We currently hold various domain name registrations relating to our brands. The registration and maintenance of domain names generally are regulated by governmental agencies and their designees. Governing bodies may establish additional top-level domains, appoint additional domain name registrars or modify the requirements for holding domain names. As a result, we may be unable to register or maintain relevant domain names. We may be unable, without significant cost or at all, to prevent third parties from registering domain names that are similar to, infringe upon or otherwise decrease the value of, our trademarks and other proprietary rights. Failure to protect our domain names could adversely affect our reputation and brands, and make it more difficult for users to find our websites and our services.

Federal broadcasting industry regulations limit our operating flexibility.

The FCC regulates all television broadcasters, including us. We must obtain FCC approval whenever we (i) apply for a new license, (ii) seek to renew or assign a license, (iii) purchase a new station or (iv) transfer the control of one of our subsidiaries that holds a license. Our FCC licenses are critical to our operations, and we cannot operate without them. We cannot be certain that the FCC will renew these licenses in the future or approve new acquisitions, mergers, divestitures or other business activities. Our failure to renew any licenses upon the expiration of any license term could have a material adverse effect on our business.

Federal legislation and FCC rules have changed significantly in recent years and may continue to change. These changes may limit our ability to conduct our business in ways that we believe would be advantageous and may affect our operating results.

The FCC can sanction us for programming broadcast on our stations that it finds to be indecent.

Over the past several years, the FCC has increased its enforcement efforts regarding broadcast indecency and profanity. In 2006, the statutory maximum fine for broadcasting indecent material increased from $32,500 to $325,000 per incident. Several judicial proceedings to review the FCC s indecency enforcement are pending at this time. The outcomes of these proceedings could affect future FCC policies in this area, and we are unable to predict the outcome of any such judicial proceeding, which could have a material adverse effect on our business.

The FCC s duopoly restrictions limit our ability to own and operate multiple television stations in the same market.

The FCC s ownership rules generally prohibit us from owning or having attributable interests in television stations located in the same markets in which our stations are licensed. Accordingly, those rules constrain our ability to expand in our present markets through additional station acquisitions.

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The FCC s national television station ownership rule limits the maximum number of households we can reach.

Under the FCC s National Television Station Ownership Rule, a single television station owner may not reach more than 39 percent of U.S. households through commonly owned television stations. This rule may constrain our ability to expand through additional station acquisitions.

The FCC s National Broadband Plan could result in the reallocation of broadcast spectrum for wireless broadband or other non-broadcast use, which could materially impair our ability to provide competitive services.

On March 16, 2010, the FCC delivered to Congress a   National Broadband Plan.   The National Broadband Plan, inter alia, makes recommendations regarding the use of spectrum currently allocated to television broadcasters, including seeking the voluntary surrender of certain portions of the television broadcast spectrum and repacking the currently allocated spectrum to make portions of that spectrum available for other wireless communications services. If some or all of our television stations are required to change frequencies or reduce the amount of spectrum they use, our stations could incur substantial conversion costs, reduction or loss of over-the-air signal coverage or an inability to provide high definition programming and additional program streams, including mobile video services.

In addition, on November 30, 2010, the FCC issued a Notice of Proposed Rulemaking that proposes preliminary rule changes to allow a portion of the spectrum currently allocated to broadcasters to be repurposed for broadband use. These proposals include (i) making broadcast spectrum allocations available for flexible use, (ii) establishing a licensing framework to allow two or more broadcast stations to share a 6Mhz channel, and (iii) improving the reception of VHF signals.

In late February 2012, Congress passed and the President signed legislation that, among other things, grants the FCC authority to conduct auctions of certain spectrum currently used by television broadcasters. The so-called incentive auctions would have two parts. First, the FCC would conduct a reverse auction by which a television broadcaster may volunteer, in return for payment, to relinquish its station s spectrum by surrendering its license; relinquish part of its spectrum and thereafter share spectrum with another station; or modify a UHF channel license to a VHF channel license. Second, the FCC would conduct a forward auction of the relinquished auction to new users. The FCC must complete the reverse auction and the forward auction by September 30, 2022. To accommodate the spectrum reallocation to new users, the FCC may require that television stations that did not participate in the auction modify their transmission facilities. The legislation authorizes the FCC to reimburse stations for reasonable relocation costs up to a total across all stations of $1.75 billion. In addition, the legislation directs the FCC to preserve a station s coverage area and population served, and it prevents the FCC from requiring that a station involuntarily move from the UHF band to the VHF band or from the high VHF band to the low VHF band. The FCC will need to adopt regulations to implement the legislation. We cannot predict the outcome of FCC regulatory action in this regard nor the impact of any such changes upon our business.

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Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

Our principal executive offices are located at 4370 Peachtree Road, NE, Atlanta, Georgia, 30319. Our administrative offices are located at 126 North Washington St., Third Floor, Albany, Georgia, 31701. Our shared services offices are located at 1801 Halstead Blvd., Tallahassee, Florida, 32309. See Our Stations and Their Markets elsewhere in this Annual Report for a complete listing of our television stations and their locations.

The types of properties required to support television stations include offices, studios, transmitter sites and antenna sites. A station s studios are generally housed within its offices in each respective market. The transmitter sites and antenna sites are generally located in elevated areas to provide optimal signal strength and coverage. We own or lease land, offices, studios, transmitters and antennas in each of our markets necessary to support our operations in that market area. In some market areas, we also own or lease multiple properties, such as towers and/or signal repeaters (translators), to optimize our broadcast capabilities. To the extent that our properties are leased and those leases contain expiration dates, we believe that those leases can be renewed, or that alternative facilities can be leased or acquired, on terms that are comparable, in all material respects, to our existing properties.

We generally believe all of our owned and leased properties are in good condition, and suitable for the conduct of our present business.

Item 3. Legal Proceedings.

We are, from time to time, subject to legal proceedings and claims in the normal course of our business. Based on our current knowledge, we do not believe that any known legal proceedings or claims are likely to have a material adverse effect on our financial position, results of operations or cash flows.

Item 4. Mine Safety Disclosures.

Not applicable.

Executive Officers of the Registrant.

Set forth below is certain information with respect to our executive officers as of March 5, 2012:

Hilton H. Howell, Jr., age 49, has been our Chief Executive Officer since August 20, 2008 and has also served as Vice-Chairman since September 2002. Before that, he had been our Executive Vice President since September 2000. He has served as one of our directors since 1993. He is a member of the Executive Committee of our board of directors. He has served as a director and Chairman of the Board of Gray Television Group, Inc. and WVLT-TV, Inc. which are our subsidiaries, and as President, Chairman of the Board and a Director of Gray Television Licensee, LLC, another of our subsidiaries, since 2008. He has served as President and Chief Executive Officer of Atlantic American Corporation, an insurance holding company, since 1995, and as Chairman of that Company since February 24, 2009. He has been Executive Vice President and General Counsel of Delta Life Insurance Company and Delta Fire and Casualty Insurance Company, life and casualty insurance companies, respectively, since 1991. He has served as Vice Chairman of Bankers Fidelity Life Insurance Company since 1992 and Vice Chairman of Georgia Casualty & Surety Company from 1992 through 2008. He served as a director of Southern

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Community Newspapers (formerly known as Triple Crown Media, Inc.) (SCN) from December 2005 until December 2009 and as Chairman of the Board of SCN from November 2007 until December 2009. Mr. Howell also serves as a director of Atlantic American Corporation and its subsidiaries American Southern Insurance Company, American Safety Insurance Company and Bankers Fidelity Life Insurance Company, as well as Delta Life Insurance Company and Delta Fire and Casualty Insurance Company. He is the son-in-law of Mr. J. Mack Robinson and Mrs. Harriett J. Robinson, both members of our board of directors.

Robert S. Prather, Jr., age 67, has served as our President and Chief Operating Officer since September 2002. He has served as one of our directors since 1993. He has served as President and a director of our subsidiaries Gray Television Group, Inc. and WVLT-TV, Inc., since 2002. He has been a director of SCN since 1994, and served as Chairman of SCN from December 2005 until November 2007. He served as President and Chief Executive Officer of SCN from May 2005 to December 30, 2005, and has served in that position since November 2007. SCN filed for protection under Chapter 11 of the U.S. bankruptcy code on September 14, 2009. SCN emerged from bankruptcy when the order confirming the Plan of Reorganization under Chapter 11 of the bankruptcy code became effective December 8, 2009. He also serves as a member of the Board of Directors for GAMCO Investors, Inc., Gaylord Entertainment Company and Draper Holdings Business Trust.

James C. Ryan, age 51, has served as our Chief Financial Officer since October 1998 and Senior Vice President since September 2002. Before that, he had been our Vice President since October 1998.

Kevin P. Latek, age 41, has served as our Vice President for Law and Development and Secretary since March 1, 2012. In the preceding nearly 15 years, Mr. Latek has represented television and radio broadcasters as well as financial institutions in FCC regulatory and transactional matters with the law firm of Dow Lohnes, PLLC, in Washington, DC. Mr. Latek received a B.S.B.A. from Georgetown University School of Business Administration (summa cum laude) in 1992 and a Juris Doctor from the University of Virginia School of Law in 1996. He is a member of the American Bar Association and the Federal Communications Bar Association.

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PART II

Item 5. Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Our common stock, no par value, and our Class A common stock, no par value, have been listed and traded on the NYSE since September 24, 1996 and June 30, 1995, respectively. Prior to September 16, 2002, the common stock was named Class B common stock.

The following table sets forth the high and low sale prices of the common stock and the Class A common stock for the periods indicated. The high and low composite sales prices of the common stock and the Class A common stock are as reported by the NYSE.

	Common Stock		Class A Common Stock	
	High	Low	High	Low
2011:				
First Quarter	$ 2.52	$ 1.87	$ 2.27	$ 1.61
Second Quarter	2.95	2.10	2.67	1.70
Third Quarter	2.75	1.38	2.40	1.38
Fourth Quarter	2.09	1.31	1.80	1.13
2010:				
First Quarter	$ 2.80	$ 1.52	$ 2.88	$ 1.57
Second Quarter	4.88	2.31	4.73	2.24
Third Quarter	2.99	1.83	2.90	1.63
Fourth Quarter	2.19	1.44	2.04	1.45

As of February 6, 2012, we had 51,404,984 outstanding shares of common stock held by approximately 3,823 stockholders and 5,753,020 outstanding shares of Class A common stock held by approximately 419 stockholders. The number of stockholders includes stockholders of record and individual participants in security position listings as furnished to us pursuant to Rule 17Ad-8 under the Exchange Act.

Our Articles of Incorporation provide that each share of common stock is entitled to one vote, and each share of Class A common stock is entitled to 10 votes. Our Articles of Incorporation require that our common stock and our Class A common stock receive dividends on a *pari passu* basis.

We have not paid dividends on either class of our common stock since October 15, 2008. Our senior credit facility contains covenants that restrict the amount of funds available to pay cash dividends on our capital stock. Further, our Series D Perpetual Preferred Stock contains requirements that, in certain circumstances, restrict our ability to pay dividends on our Class A common stock and our common stock.

In 2011, we repurchased an aggregate of approximately $13.4 million in face amount of our Series D Perpetual Preferred Stock, and paid $6.6 million in accrued dividends related thereto. We used cash on hand and borrowings under our revolving credit facility to fund these transactions. In 2010, we repurchased approximately $60.7 million in face amount of our Series D Perpetual Preferred Stock, and paid $14.9 million in accrued dividends thereon, in exchange for $50.0 million in cash, using net proceeds from the sale of Notes, and 8.5 million shares of common stock.

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Except for the payment of these accrued dividends, we have deferred the cash payment of dividends on our Series D Perpetual Preferred Stock earned thereon since October 1, 2008.

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 is redeemable at our option at any time, and may be redeemed at the stockholders option on or after June 30, 2015.

In addition, the declaration and payment of common stock and Class A common stock dividends are subject to the discretion of our Board of Directors. Any future payments of dividends will depend on our earnings and financial position and such other factors as our Board of Directors deems relevant. See Note 2. Long-term Debt of our audited consolidated financial statements included elsewhere herein for a further discussion of restrictions on our ability to pay dividends.

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Stock Performance Graph

The following stock performance graphs do not constitute soliciting material and should not be deemed filed or incorporated by reference into any other filing by us under the Securities Act of 1933 or the Exchange Act, except to the extent we specifically incorporate these graphs by reference therein.

The following graphs compare the cumulative total return of the common stock and the Class A common stock from December 31, 2006 to December 31, 2011, as compared to the stock market total return indexes for (i) The New York Stock Exchange Market Index and (ii) The New York Stock Exchange Industry Index based upon the Television Broadcasting Stations Index.

The graphs assume the investment of $100 in the common stock and the Class A common stock, the New York Stock Exchange Market Index and the NYSE Television Broadcasting Stations Index on December 31, 2006. Any dividends are assumed to have been reinvested as paid.

	Year Ended				
Company/Index/Market	**12/31/2007**	**12/31/2008**	**12/31/2009**	**12/31/2010**	**12/31/2011**
Gray Television Common	$ 110.90	$ 5.70	$ 21.38	$ 26.65	$ 23.09
NYSE Market Index	$ 108.87	$ 66.13	$ 84.83	$ 96.19	$ 92.50
TV Broadcasting Stations Index	$ 95.15	$ 57.99	$ 85.82	$ 103.23	$ 111.27

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	Year Ended				
Company/Index/Market	**12/31/2007**	**12/31/2008**	**12/31/2009**	**12/31/2010**	**12/31/2011**
Gray Television Class A	$ 104.77	$ 7.30	$ 18.88	$ 22.27	$ 16.99
NYSE Market Index	$ 108.87	$ 66.13	$ 84.83	$ 96.19	$ 92.50
TV Broadcasting Stations Index	$ 95.15	$ 57.99	$ 85.82	$ 103.23	$ 111.27

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Item 6. Selected Financial Data.

Certain selected historical consolidated financial data is set forth below. This information with respect to the years ended December 31, 2011, 2010 and 2009 should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations and our audited consolidated financial statements and related notes thereto included elsewhere herein.

	Year Ended December 31, (in thousands, except per share data)				
	2011	**2010**	**2009**	**2008**	**2007**
Statements of Operations Data:					
Revenue (1)	$ 307,131	$ 346,058	$ 270,374	$ 327,176	$ 307,288
Impairment of goodwill and and broadcast licenses (2)	-	-	-	338,681	-
Operating income (loss)	75,348	106,960	43,079	(258,895)	53,376
Loss on early extinguishment of debt (3)	-	(349)	(8,352)	-	(22,853)
Net income (loss)	9,035	23,163	(23,047)	(202,016)	(23,151)
Net income (loss) available to common stockholders	1,795	8,581	(40,166)	(208,609)	(24,777)
Net income (loss) available to common stockholders per common share:					
Basic	0.03	0.16	(0.83)	(4.32)	(0.52)
Diluted	0.03	0.16	(0.83)	(4.32)	(0.52)
Cash dividends declared per common share (4)	-	-	-	0.09	0.12
Balance Sheet Data (at end of period):					
Total assets	$ 1,233,980	$ 1,242,293	$ 1,245,739	$ 1,278,265	$ 1,625,969
Long-term debt (including current portion)	832,233	826,704	791,809	800,380	925,000
Long-term accrued facility fee (5)	-	-	18,307	-	-
Preferred stock (6)	24,841	37,181	93,386	92,183	-
Total stockholders equity	122,953	129,407	93,620	117,107	337,845

(1) Our revenue fluctuates significantly between years, consistent with, among other things, increased political advertising expenditures in even-numbered years.

(2) In the year ended December 31, 2008, we recorded a non-cash impairment expense of $338.7 million resulting from a write down of $98.6 million in the carrying value of our goodwill and a write down of $240.1 million in the carrying value of our broadcast licenses. The write-down of our goodwill and broadcast licenses related to seven stations and 23 stations, respectively. As of the testing date of December 31, 2008, we believed events had occurred and circumstances changed that more likely than not reduced the fair value of our broadcast licenses and goodwill below their carrying amounts. These events, which accelerated in the fourth quarter of 2008, included: (i) the continued decline of the price of our common stock and Class A common stock; (ii) the decline in the selling prices of television stations; (iii) the decline in local and national advertising revenues excluding political advertising revenue; and (iv) the decline in the operating profit margins of some of our stations.

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(3) In 2010 and 2009, we recorded a loss on early extinguishment of debt related to amendments to our senior credit facility. In 2007, we recorded a loss on early extinguishment of debt related to the refinancing of our senior credit facility and the redemption of our then outstanding 9.25% Senior Subordinated Notes.

(4) Cash dividends for 2007 include a cash dividend of $0.03 per share approved in the fourth quarter of 2007, and paid in the first quarter of 2008.

(5) On March 31, 2009, we amended our senior credit facility. Effective on that date, we began to incur an annual facility fee equal to 3% multiplied by the outstanding balance under our senior credit facility. Effective as of April 29, 2010, the accrued facility fee was reduced to 0.75%. Effective April 21, 2011, the facility fee was reduced to 0%. In 2009, we deferred payment of the facility fee as permitted under the senior credit facility. In 2010, we paid the accumulated deferred facility fee in full and from that time and until April 21, 2011, we paid the facility fee as incurred.

(6) On May 22, 2007, we redeemed all outstanding shares of our Series C Preferred Stock.

During 2008, we issued 1,000 shares of our Series D Perpetual Preferred Stock, no par value. The issuance of the Series D Perpetual Preferred Stock generated net cash proceeds of approximately $91.6 million, after a 5.0% original issue discount, transaction fees and expenses. The $8.4 million of original issue discount, transaction fees and expenses are being accreted over a seven-year period ending June 30, 2015. We used a majority of the net proceeds from these issuances to reduce our outstanding debt balance by $88.0 million during 2008. The Series D Perpetual Preferred Stock has a liquidation value of $100,000 per share.

In 2011, we repurchased an aggregate of approximately $13.4 million in face amount of our Series D Perpetual Preferred Stock, and paid $6.6 million in accrued dividends related thereto. We used cash on hand and borrowings under our revolving credit facility to fund these transactions. In 2010, we repurchased approximately $60.7 million in face amount of our Series D Perpetual Preferred Stock, and paid $14.9 million in accrued dividends thereon, in exchange for $50.0 million in cash, using net proceeds from the sale of Notes, and 8.5 million shares of common stock.

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Item 7. 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) shoul read in conjunction with our audited consolidated financial statements and notes thereto included elsewhere herein.

Overview

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 FOX Broadcasting Company (FOX). Our 17 CBS-affiliated stations make us the largest independent owner of CBS affiliates in the United States. Based on the results of the average of the Nielsen February, May, July, and November 2011 ratings reports, our combined station group has 23 markets with stations ranked #1 in local news audience and 22 markets with stations ranked #1 in overall audience within their respective markets. Of the 30 markets that we serve, we operate the #1 or #2 ranked station in 29 of those markets. 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, one affiliated with The Country Network 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 broadcast channels; however, our secondary channels are affiliated with networks different from those affiliated with our primary broadcast channels. Our combined TV station group reaches approximately 6.2% of total United States households.

Our operating revenues are derived primarily from broadcast and internet advertising, and from other sources such as retransmission consent, production of commercials, tower rentals, and consulting.

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

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

Most advertising contracts are short-term, and generally run only for a few weeks. Approximately 65% of the net revenues of our television stations for the year ended December 31, 2011 were generated from local advertising (including political advertising revenues), which is sold primarily by a station s

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sales staff directly to local accounts, and the remainder represented primarily by national advertising, which is sold by a station s national advertising sales representative. The stations generally pay commissions to advertising agencies on local, regional and national advertising and the stations also pay commissions to the national sales representative on national advertising, including certain political advertising.

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.

Our primary broadcasting operating expenses are employee compensation, related benefits and programming costs. In addition, the broadcasting operations incur overhead expenses, such as maintenance, supplies, insurance, rent and utilities. A large portion of the operating expenses of the broadcasting operations is fixed.

During the recent economic recession, many of our advertising customers reduced their advertising spending, which reduced our revenue. The economy improved somewhat in 2011 as compared to 2010. Although our total revenue for 2011 decreased when compared to 2010, this decrease was due primarily to a decrease in political revenue resulting from a decrease in the number of national, state and local elections in the off year of the two year political cycle. Our 2011 local and internet advertising revenue increased over 2010 amounts due primarily to an improvement in the economy in 2011 as compared to 2010. Our national advertising revenue also benefited from an improving economy, but our national revenue decreased in 2011 compared to 2010 due partially to a change in networks broadcasting the Super Bowl and a lack of Olympic Games coverage. Our national advertising revenue also decreased in 2011, in part, due to natural disasters affecting Japanese auto manufacturers. Our retransmission consent revenue increased in 2011 compared to 2010 due to improved terms of our retransmission consent contracts and an increase in the number of subscribers. In addition, we continue to earn revenue under our management contract with Young Broadcasting, Inc. (Young). This management contract became effective on August 10, 2009 and expires on December 31, 2012.

Automotive dealers and manufacturers have traditionally accounted for a significant portion of our revenue. During the recession, our automotive advertising customers suffered disproportionately and significantly reduced their advertising expenditures, which in turn negatively impacted our 2009 revenues. In 2011 and 2010, we experienced increases of 6% and 27%, respectively, in advertising from automotive advertising customers over the prior year.

In addition to general economic challenges in recent years, our revenue has come under pressure from the internet as a competitor for advertising spending. We continue to enhance and market our internet websites in an effort to generate additional revenue.

We continue to monitor our operating expenses and reduce them where possible. Our total operating expenses for 2011 decreased over 2010 amounts. Please see our Results of Operations and Liquidity and Capital Resources sections below for further discussion of our operating results.

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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 to our total revenue (dollars in thousands):

	$187,029	$187,029	$187,029	$187,029	$187,029	$187,029
	Year Ended December 31,					
	2011		**2010**		**2009**	
	Amount	**Percent of Total**	**Amount**	**Percent of Total**	**Amount**	**Percent of Total**
Revenues:						
Local	$ 187,029	60.9%	$ 183,177	52.9%	$ 170,813	63.2%
National	56,335	18.3%	57,649	16.7%	53,892	19.9%
Internet	20,081	6.5%	13,401	3.9%	11,413	4.2%
Political	13,491	4.4%	57,552	16.6%	9,976	3.7%
Retransmission consent	20,227	6.6%	18,774	5.4%	15,645	5.8%
Production and other	7,070	2.3%	7,446	2.2%	7,119	2.6%
Network compensation	698	0.2%	562	0.2%	653	0.2%
Consulting revenue	2,200	0.8%	7,497	2.1%	863	0.4%
Total	$ 307,131	100.0%	$ 346,058	100.0%	$ 270,374	100.0%

Risk Factors

The broadcast television industry is reliant primarily on advertising revenue and faces increased competition. For a discussion of certain other presently known, significant factors that may affect our business, see Item 1A. Risk Factors included elsewhere this Annual Report.

Results of Operations

Year Ended December 31, 2011 (2011) Compared to Year Ended December 31, 2010 (2010)

Revenue

Total revenue decreased $38.9 million, or 11%, to $307.1 million for 2011 compared to 2010 reflecting decreased political and national advertising revenue and consulting revenue, partially offset by increased local and internet advertising revenue and retransmission consent revenue. Political advertising revenue decreased $44.1 million, or 77%, to $13.5 million reflecting decreased advertising from political candidates and special interest groups during the off year of the two-year political advertising cycle. National advertising revenue, excluding political advertising revenue, decreased $1.3 million, or 2%, to $56.3 million. Local advertising revenue, excluding political advertising revenue, increased $3.9 million, or 2%, to $187.0 million. Internet advertising revenue increased $6.7 million, or 50%, to $20.1 million. Local and internet advertising revenue as compared to 2010 benefitted from increased spending by advertisers in an improving economic environment. Our national advertising revenue also benefited from an improving economy, but national advertising revenue decreased primarily due to the change in the broadcast network carrying the Super Bowl in 2011 to FOX from CBS and the lack of Olympic Games coverage in 2011. These events did not have as large a negative effect upon our local and internet advertising revenue as they did on our national advertising revenue and, as a result, we were able to grow our local and internet advertising revenue. Net advertising revenue associated with the broadcast of the 2011 Super Bowl on our one primary FOX-affiliated channel and four secondary FOX-affiliated channels

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approximated $0.2 million, which was a decrease from approximately $0.9 million earned in 2010 on our seventeen CBS-affiliated channels. In addition, results in 2010 benefited from approximately $2.8 million of net revenues earned from the broadcast of the 2010 Winter Olympic Games on our NBC-affiliated channels. There was no corresponding broadcast of Olympic Games during 2011. Our national advertising revenue also decreased in 2011, in part, due to natural disasters affecting the operations of Japanese auto manufacturers. Our five largest local and national advertising categories on a combined local and national basis by customer type for 2011 demonstrated the following changes during 2011 compared to 2010: automotive increased 6%; restaurant increased 1%; medical increased 12%; communications increased 3%; and furniture and appliances increased 7%. Retransmission consent revenue increased $1.5 million, or 8%, to $20.2 million due to the improved terms of our retransmission contracts and an increase in the number of subscribers in 2011 compared to 2010. We continued to earn consulting revenue from our agreement with Young. Our consulting revenue from this agreement includes a fixed base component and an incentive component which is based upon Young s actual results. We recorded base consulting revenue of $2.2 million for each of 2011 and 2010. Pursuant to the terms of the consulting agreement, we recorded incentive consulting revenue of $0.0 million and $5.3 million for 2011 and 2010, respectively.

Broadcast expenses

Broadcast expenses (before depreciation, amortization and gain on disposal of assets) decreased $2.2 million, or 1%, to $194.2 million for 2011 compared to 2010 due primarily to a decrease in non-compensation expense of $3.1 million, partially offset by an increase in compensation expense of $0.9 million. Compensation expense increased primarily due to an increase in health care expense of $1.1 million due to increased claims activity. Non-compensation expense decreased primarily due to decreases in syndicated programming expense and national sales commission expense related to the reduction in political and national advertising revenue.

Corporate and administrative expenses

Corporate and administrative expenses (before depreciation, amortization and gain on disposal of assets) increased $0.6 million, or 5%, to $14.2 million during 2011 as compared to 2010. The increase was due primarily to an increase in non-compensation expense of $1.3 million, partially offset by a decrease in compensation expense of $0.7 million. Compensation expense decreased primarily due to a decrease in bonus compensation expense. The decrease in bonus compensation expense was due primarily to $1.05 million in bonus compensation for certain executive officers in 2010. Non-cash stock-based compensation expense decreased $0.2 million due to outstanding stock options becoming fully vested. We recorded non-cash stock-based compensation expense during 2011 and 2010 of $0.1 million and $0.3 million, respectively.

Depreciation

Depreciation of property and equipment totaled $26.2 million and $30.6 million for 2011 and 2010, respectively. Depreciation expense decreased in 2011 compared to 2010 due to reduced capital expenditures in recent years compared to that of prior years. As a result, more assets acquired in prior years have become fully depreciated than were purchased in recent years.

Amortization of intangible assets

Amortization of intangible assets was $0.1 million for 2011 as compared to $0.5 million for 2010. Amortization expense decreased in 2011 compared to 2010 as a result of certain assets becoming fully amortized in 2011.

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Gain on disposal of assets

Gain on disposal of assets increased $1.0 million, or 52%, to $2.9 million during 2011 as compared to 2010. Our primary broadcast tower for WEAU-TV collapsed during inclement weather on March 22, 2011. We recorded a gain on disposal on our old WEAU-TV broadcast tower of $3.0 million in 2011. In 2010, as a result of an earlier FCC mandate, we disposed of a portion of our broadcast microwave spectrum and recorded a gain of $2.2 million on the disposal. No similar disposals of our broadcast microwave spectrum were completed in 2011.

Interest expense

Interest expense decreased $8.3 million, or 12%, to $61.8 million for 2011 compared to 2010. Interest expense decreased due to a decrease in average debt balance and our average interest rates. We amended our senior credit facility on March 31, 2010 (the 2010 Amendment). Upon amending our senior credit facility on March 31, 2010, our interest rate increased, until April 29, 2010, when we issued our 10 $^{1}/2$% senior secured second lien notes due 2015 (the Notes) and repaid a portion of the amount outstanding under our senior credit facility. Although the interest rate on our Notes is higher than that of borrowings under our senior credit facility, the prepayment of $300.0 million of the amount outstanding under the senior credit facility resulted in the reduction of the interest rate on the remaining outstanding balance under the senior credit facility, which resulted in a lower total average interest rate beginning April 29, 2010.

Our interest rate swap agreements expired in April 2010. These expirations had a further positive effect upon our average interest rate. Our average interest rates, including the effects of our interest rate swap agreements, on borrowings under our senior credit facility and our Notes for the duration of each period, and only for the periods in which borrowings were outstanding, were 7.0% and 8.1% for 2011 and 2010, respectively. The average principal balance of indebtedness under our senior credit facility and pursuant to the Notes for the duration of each period, and only for the periods in which borrowings were outstanding, was $832.5 million and $846.1 million for 2011 and 2010, respectively.

Loss from early extinguishment of debt

To obtain the 2010 Amendment, we incurred loan issuance costs of approximately $4.5 million, including legal and professional fees. These fees were funded from our existing cash balances. In connection with this transaction, we reported a loss on early extinguishment of debt of $0.3 million for 2010.

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Income tax expense or benefit

Our effective income tax rate decreased to 33.4% for 2011 from 36.7% for 2010. Our effective income tax rates differ from the statutory rate due to the following items:

	Year Ended December 31,	
	2011	**2010**
Statutory federal income tax rate	35.0 %	35.0 %
Current year permanent items	1.7 %	1.7 %
State and local taxes, net of federal taxes	5.2 %	5.4 %
Change in valuation allowance	(1.9)%	(4.3)%
Reserve for uncertain tax positions	(6.7)%	(1.4)%
Other items, net	0.1 %	0.3 %
Effective income tax rate	33.4 %	36.7 %

Preferred stock dividends

Preferred stock dividends decreased $7.3 million, or 50%, to $7.2 million in 2011 compared to the prior year due to fewer shares being outstanding in 2011. We repurchased 134 shares and 607 shares of our Series D Perpetual Preferred Stock in 2011 and 2010, respectively. As of December 31, 2011 and 2010, we had 259 shares and 393 shares of Series D Perpetual Preferred Stock outstanding, respectively. The Series D Perpetual Preferred Stock dividend rate was 17.0% per annum for 2011 and 2010.

Year Ended December 31, 2010 (2010) Compared to Year Ended December 31, 2009 (2009)

Revenue

Total revenue increased $75.7 million, or 28%, to $346.1 million for 2010 compared to 2009 reflecting increases in political, local, national, and internet advertising revenue, retransmission consent revenue, consulting revenue and production and other revenue. Political advertising revenue increased $47.6 million, or 477%, to $57.6 million reflecting increased advertising from political candidates and special interest groups during the on year of the two-year political advertising cycle. Local advertising revenue, excluding political advertising revenue, increased $12.4 million, or 7%, to $183.2 million. National advertising revenues, excluding political advertising revenue, increased $3.8 million, or 7%, to $57.6 million. Internet advertising revenue increased $2.0 million, or 17%, to $13.4 million. Local, national and internet advertising revenue increased as compared to 2009 due to increased spending by advertisers in an improving economic environment. Our five largest advertising categories by customer type, excluding political advertising, demonstrated the following changes during 2010 compared to 2009: automotive increased 27%; restaurants decreased 9%; medical increased 12%; communications decreased 4% and furniture and appliances increased less than 1%. Net advertising revenue associated with the broadcast of the 2010 Super Bowl on our seventeen CBS-affiliated stations approximated $0.9 million which was an increase from our approximately $0.8 million of Super Bowl revenues earned in 2009 on our ten NBC-affiliated stations. In addition, results in 2010 benefited from approximately $2.8 million of net revenue earned from the broadcast of the 2010 Winter Olympic Games on our NBC-affiliated stations. There was no corresponding broadcast of Olympic Games during 2009. Retransmission consent revenue increased $3.1 million, or 20%, to $18.8 million due to the improved terms of our retransmission contracts compared to those in effect during 2009. Production and other revenue increased $0.3 million, or 5%, to $7.4 million due primarily to increased revenue from producing news for a station not owned by

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Gray. 2010 revenues were also positively impacted by consulting revenue earned from our agreement with Young. We earned base consulting revenue of $2.2 million and $0.9 million for 2010 and 2009, respectively. The increase was due to the agreement being effective for only a portion of 2009. Pursuant to the terms of the consulting agreement, we recorded $5.3 million of incentive consulting revenue for the year ended December 31, 2010. We were not eligible for an incentive consulting fee in the year ended December 31, 2009. This agreement became effective on August 10, 2009 and expires December 31, 2012.

Broadcast expenses

Broadcast expenses (before depreciation, amortization and gain on disposal of assets) increased $8.8 million, or 5%, to $196.4 million for 2010 compared to 2009 due primarily to increases in payroll expense of $7.1 million and national sales representation expense of $2.9 million, partially offset by decreases in employee benefit expense of $1.6 million and electricity expense of $0.5 million. Payroll expense increased primarily due to increases in sales and certain other incentive compensation due to the increase in advertising revenue discussed above. National sales representation fees earned by third parties also increased due to increased advertising revenue. National sales representation expense is equal to a certain percentage of our national sales revenue (including certain political advertising revenue) and increases as this revenue increases. Employee benefit expense decreased due to a decrease in health care expense of $1.1 million and pension expense of $0.3 million. Health care expense decreased primarily due to fewer claims being incurred. Pension expense decreased primarily due to an increase in our