GRAY TELEVISION, INC.

Moderator: Hilton Howell, Jim Ryan, Kevin Latek
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Operator: Good day, ladies and gentlemen, and welcome to the Gray Television's Second Quarter 2016 Earnings Call. Today's conference is being recorded.

At this time, I would like to turn the conference over to Hilton Howell, Chairman, President and Chief Executive Officer. Please go ahead, sir.

Hilton Howell: Thank you, operator. Good morning. I am Hilton Howell, the Chairman and CEO of Gray Television. I want to thank all of you for joining our second quarter 2016 earnings call. I am joined today by our Chief Financial Officer, Jim Ryan, and our Chief Legal and Development Officer, Kevin Latek.

Before we get started, I want to take a point of personal congratulations to officially welcome, Luis Garcia, who joined our Board of Directors at the end of June. Luis is President and the Lead Strategist at San Antonio based MarketVision, which is a marketing firm focused on diverse audiences and cultural relevant communications from clients ranging from Fortune 500 companies to leading non-profit institutions.

We are very gratified by his decision to join our board and we will benefit greatly from his considerable experience as an entrepreneur, a marketer and a leader in the dynamic media world in which Gray operates.

Turning now to our results. We are quite simply very pleased with today's print. Let me again, with our last call last quarter, we reported very solid numbers for Q1. We reported on that call that we had experienced a slowdown in April's core revenue that led to the first month in quite some time that we had experienced some contraction on a year-over-year basis. We also explained that April appeared to be an aberration and we expected May and June to be much better.

Well, as you saw from our 10-Q and our press release this morning, the second quarter came out as we had expected. In particular, our revenue was a $196.6 million, up 37% on a year-over-year basis. Our broadcast cash flow was $79.3 million, up 38%. And our net income was $17.7 million up 46%. Each of these figures set new records for Gray as explained in the release.

Equally important to us is that we reported actual results that met our guidance, specifically total revenue, political revenue and corporate expenses all into the quarter slightly above the midpoint at each range provided for our and in our Q2 guidance and our broadcast expenses finished about $4 million below the low end of our guidance.

We are equally proud that our results reflect solid organic growth after adjusting for the effects of our many acquisitions. As you also saw in today's release, our revenue increased by 8% and broadcast cash flow increased by 4% on, what we call, our combined historical basis. Our prudent cost controls ensured that our broadcasting expenses excluding network reverse comp fees remain virtually flat relative to the second quarter of 2015.

Consequently, in terms of both actual results and guidance, Gray had a very strong Q2 that met our expectations. We believe this is a noteworthy achievement given the fairly sluggish macroeconomic and geopolitical news reported throughout the second quarter, and of course, given the blob that occurred in April.

I have asked Kevin Latek to develop into the strategic areas of focus for us for our company right now, and for Jim Ryan to dig into our financial results and guidance for the third quarter.

At that point I will return to address our Board's current thinking about capital returns and uses of cash. We of course, will open the line for questions after these remarks. So I'll turn the telephone call over to Kevin Latek. Kevin.

Kevin Latek: Good morning, and thank you, Hilton. As Hilton said, I am Kevin Latek, and I will touch briefly on M&A and the regulatory environment before discussing in more detail where Gray stands today on political ad revenue.

First, as you all know, Gray has been very acquisitive since the fourth quarter of 2013, adding a net total a 41 televisions stations in 28 markets to our operations including 19 new televisions stations. During the second quarter we continued these efforts albeit at a much slower pace. In May, we agreed to acquire the CBS and Fox television stations in the Clarksburg, West Virginia television market from Withers Broadcasting Company for a maximum total purchase price of $26.5 million.

On June 1, we began to operate these stations under a standard pre-closing LMA subject to the ultimate control of Withers. Although a small transaction was about $4 million of two year average BCF, this new duopoly gives us our 51st market, our 24th duopoly market and a perfect fit with a cluster of strong television stations that we own and operate in Virginia, Tennessee, Kentucky and West Virginia.

In June, we agreed to acquire two Media General owned television stations that Nexstar will divest upon into merger with Media General; WBAY the ABC in Green Bay, and KWQC the NBC in Davenport, Iowa, for a total of $270 million in cash. Both of these television stations rank first in viewership and first in market share in their respective markets. Both also cement the cluster of strong television stations that we own in Iowa, Illinois, Wisconsin and Michigan.

Including Clarksburg, our new total retrans sub-universe is $11.6 million households. We will renegotiate and reprice 4.2 of this universe at the end of 2016, that's 36%. Between December 2016 and the end of 2017, we will renew approximately 97% of total retrans universe.

We anticipate that we will close both the Clarksburg and the Nexstar Media General acquisitions in the fourth quarter of 2016. Both closing however maybe commission on the conclusion of FCC spectrum option. While we have been projecting that the option will end in the fourth quarter, be cautioned that we personally have no greater insight into when or how the spectrum auction will end to any of you on this call today.

In terms of the FCC spectrum auction, presumably everyone knows that we are not permitted to say very much about the auction under the FCCs quiet rule. But all we can really say today is that we continue to wish that the auction will end promptly, so that we can place this uncertainty behind us and any resulting opportunities can be pursued in earnest.

In light of the elections and the FCC spectrum auction, Gray is not in active discussions with any one about additional station acquisition at this time. The proverbial telephone could ring at any time with a fantastic attractively priced strategic opportunity. However, we simply do not expect to be engaged in any significant M&A activity into a capacity election and/or the spectrum auction.

Stepping back a bit from the auction, we are pleased to report that the regulatory environment in Washington has improved. The FCC is reportedly going to issue another broadcast ownership order that concludes that the media marketplace has not changed enough to warrant relaxing the local duopoly rule with the broadcast newspaper cross-ownership ban. So we may take issue with that conclusion, we are not surprised by it.

The new FCC order also apparently will recompose the band on new joint sales agreements. But remember that Gray essentially exited the JSA world already and has no plans to create new JSAs. In short, the FCC's new ownership order should have no effect on Gray Television.

In terms of retransmission issues before the agency, the FCC apparently will end its latest retransmission enquiry without proposing or let along adopting any new restraints on the marketplace. And so in short, the regulatory that we have had to discuss for the past several years have more or less subsided. In fact, considering all the good that can come from the spectrum auction and the FCC's potential authorization of ATSC 3.0, this is the first time in a long while that the broadcast industry can point to the FCC as a potential driver for growth.

And finally, I will address the other big theme of this year and this quarter, political revenue. As you know, we have consistently stated our expectation; the 2016 net political revenue will be at least $1 more than the pro forma 2012 figure. Prior to Clarksburg, our pro forma 2012 figure was $143 million. With the inclusion of Clarksburg, our pro forma political figure for 2012 is $144 million. As you saw from the release, nothing has occurred to change our long standing belief in guidance on this figure.

We have been in ongoing discussions with the actual political ad buyers and others who control the spending decisions for politicians, packs and campaigns. We of course, closely monitor the analysis of the higher profile political operatives as well. With the obvious caveat that politics is a very dynamic game, and fund raising and spending decisions can change literally overnight for reasons that no one could have predicted.

We can offer the following data points on the 2016 cycle: the chief funders and interest groups are clearly energized this year. If not for their own candidate and at least in opposition to the candidate's opponent; control of the senate and the Supreme Court are both at stake in this year's election. That has not been the case in many decades and certainly not been the case since campaign finance restrictions were relaxed.

Trump is not running any ordinary campaign, but he and the people around him are serious in their own way. The bottom line, Trump is in this race to win in. Clinton Super PAC has been very active all summer in about a half a dozen Gray market. We continue to expect very strong spending by the Clinton campaign, Pro-Clinton PACs and Super PACs and some anti-Trump groups.

The Trump campaign is yet to spend on TV advertising since during they gotten out the GOP nomination. Nevertheless, we understand that his fund raising efforts are succeeding and the campaign is expected to start advertising sometime this month. A Pro-Trump PAC has been spending on TV in one Gray market at this time. That PAC and potential other backing Trump should begin spending in earnest after Labor Day.

Outside media buyers and political operatives generally agree that the Presidential race this year will be fought across more swing states than in 2012. In terms of Gray's current footprint, the 2012 Presidential race primarily involved 19 markets in which Gray now owns and operates stations. This year the Presidential race looks to involve 24 Gray markets.

This year's races should lead to significant spending in six markets compared to five Gray pro forma markets in 2012. In terms of the senate, we expect heavy spending in 14 Gray markets this year compared with 15 markets in 2012. And in terms of the House, we expect significant spending in at least nine markets across seven states.

A handful of statewide and local races will also contribute to the remainder of the political revenue this year. We believe that the Presidential battleground states will become active in waves.

The first wave of Presidential spending should begin this month and include probably about six Gray states. The second wave will begin soon after Labor Day and activate likely three more Gray states. Depending on the progress of the races, fund raising levels, polls and external events, political spending likely would put into play new areas while we're moving other areas from media buy list.

Generally speaking, we are seeing Senate and House candidates hold off and starting their general election spending and totally see what the Trump campaign does. Once the Donald breaks the dam, the bias for all other races should begin in earnest.

The cadence of political spending this year is clearly slower than what we saw in 2012, but is not necessarily exceptional. You have heard from us repeatedly that we historically receive 50% or more of our political revenue in the fourth quarter of an election year. We can give you a bit more color on this back today.

Generally speaking in four of the last five election years, we reported between 55% and 60% of our total political revenue in the last quarter of those years. Also in terms of Presidential money versus all other races political revenue attributable to the Presidential race generally ranges between 25% and 33% of total political revenue in presidential years.

While spending is likely to start later this year than in the past, fund raising appears to be well ahead of past cycles. The Center for Responsive Politics is a non-partisan, non-profit that tracks money in U.S. politics and elections. It reports that excluding fund raising by campaigns in the political parties' Super PACs raised $696 billion in the 2014 cycle and $828 billion in the 2012 cycle.

As of today, the Center for Responsive Politics has tracked $936 billion raised by Super PACs for the 2016 cycle and this sum is based on reports that were filed more than 100 days before Election Day. The amount spent so far is significantly less than in years past, but the fund raising totals as of today certainly support the reports from the media buyers that we will see very significant spending concentrated between Labor Day and Election Day.

In conclusion, for all of the reasons provided on the call today, we reiterate our prior political guidance for all of 2016 or at least April the political, the pro forma 2012 political record of $144 million. So far this year we have recorded $19.3 million of political revenue. We currently anticipate that political revenue in the third quarter will fall in the range of $40 million to $46 million. Consequently, we anticipate that a balance of $80 million to $87 million will arrive in the fourth quarter.

Thank you for listening to all this detail. I will now turn the call over to Jim Ryan.

Jim Ryan: Thanks Kevin. Good morning, everybody. I'll focus real briefly on Q2 results, focusing on the combined historical data, because that gives effect to all the acquisitions including Clarksburg.

As Kevin mentioned earlier, we did commence a pre-closing LMA in Clarksburg on June 1. So accordingly we have adjusted all of our combined historical information to reflect Clarksburg consistent with what we've done with either other LMA commencements or completed acquisitions.

As Kevin said, Clarksburg is not a very big market, but it was a nice tuck-in for us. And on second quarter basis, it had about $2 million of revenue, $1 million or a little over $1 million of broadcast cash flow, and on a six-month basis, it would be about $4 million of revenue and about $3 million of or -- I'm sorry, $4 million of revenue and about $2 million of cash flow.

As we mentioned before, our second quarter results were mixed with a soft April. It was down and core about 3.5% followed by improvements in May and June. Our national revenue for the quarter was down 3% and half of that 3% both on a three-month basis and six-month basis is attributable to two insurance accounts we have, Aflac and American Family, they have either not spent money in our markets this year compared to last year or significantly reduced their budgets.

From time to time we see that happen with any large national advertiser, but in second quarter that accounted for about a 1.5 of the decline and on a year-to-date basis it was closer to 2 points of the overall decline. We expect that trend in national with those accounts to continue for the rest of the year.

We continue to receive positive feedback from the national agencies with our switch to the direct rep approach at the beginning of this year for all of our stations, except for one market, where we haven't made that switch yet. We saved about $2.2 million in national reps' commissions and those savings will continue to grow as the year progresses, especially since we will not be paying rep commissions on the political revenue in the second half of the year and that in turn will save us many millions of dollars of commission expense.

A couple of quick comments on auto. We were up 5% in Q2. We were very pleased with that. We saw strong spending from Chevy and to a lesser extent, but still positive spending, notably from Toyota and Nissan. Together those three were about $1.8 million in the aggregate.

Ford spending was softer. We understand that Ford has been pulling some money back from the national spot market across the country. We expect that Ford will probably be a little softer as we go the second half of the year. But as you can see in our guidance section of -- speaking to our guidance for Q3, our auto was still pacing up low single digit so far and we're very pleased with that.

As we've said many times now on calls, our NOLs will be fully used by the end of this year. Accordingly, we have started to make estimated federal tax payments in the second quarter that was about $13.9 million. On a six-month basis it was $14 million. On a full year basis, we're currently forecasting somewhere between $16 million and $21 million of federal taxes this year. Obviously, we didn't have that last year, but as they say, it's better to actually use your NOLs than let them go and expire on years. So just this has been coming for a long time and we know it's been coming and we know it was going to happen this year.

Guidance for Q3, I'd like to comment, first on the other big revenue driver for the quarter, which is the Summer Olympic Games, and the opening ceremonies are broadcast tomorrow night. We currently have about $7.3 million of revenue in August on our NBC stations attributable to the Olympics. About 75% of that is local ad sales, auto is the largest advertiser with about 30% of the total revenue in the Olympics.

As you would expect the ad spending in Q3 is shifting to the NBC stations and August is very, very strong for NBC. And as we completely expected and have seen in other, especially Summer Olympic periods, our ABC, CBS and Fox stations are seeing some normal shifting away of spending in those markets towards the incumbent NBC stations, which is again, completely expected.

On a combined historical basis, we expect local revenue in Q3 to be up 2% to 4%. We think this is very good growth rate, especially as we get into September with political displacement as well as a relatively sluggish GDP. We're very pleased with a low to middle single digit growth rate in local. As I mentioned before, we expect continuing softness with national, primarily driven by the two insurance accounts that I have mentioned earlier.

Our total operating expenses on a combined historical basis for Q3 will increase somewhere between $2.5 million and $4.5 million to $123 million to $125 million. That increase reflects a $1.6 million increase in network reverse comp. We expect total reverse comp for the quarter to be about $24.9 million. In addition, Q3 has approximately $1.3 million of fees to NBC directly associated with the Olympics.

Switching to leverage, our leverage ratio at the end of the quarter June 30, netting all of the $176.3 million of cash that we had on our balance sheet, was 5.2x and that’s based on a trailing eight quarter operating cash flow of $296.2 million.

We’ll continue to accumulate cash during the remainder of the year and in anticipation of closing the $270 million acquisition of the Green Bay and Davenport’s station, which we, as Kevin said, expect to close late this year.

As we’ve said before, if the Green Bay and Davenport acquisition does not close in 2016, then netting all cash on our balance sheet we would expect our leverage ratio to be in the low-4s. If we close Green Bay and Davenport as we previously said and we pro forma those acquisitions into a projected yearend leverage level, we still believe our leverage at the end of the year will be 4.5x to 4.7x. In either case, those leverage ratios would be all time historic lows for the company.

A couple of quick comments on both our 2026 senior notes that we issued in June and our 2020 notes. First of all, our 2026 notes we were delighted with that offering the $500 million of notes priced at 5.875% which is the lowest coupon rate we’ve ever issued to bond that and it’s the longest tenured bond we’ve ever issued and at the same time we were pleased that Moody’s and S&P upgraded our credit profiles.

With respect to the $675 million 2020 notes, as we've said before their second call dates starts October 1. We are thinking very hard about our options with respect to that call date. And we will continue to focus our attention and think hard about that over the coming weeks.

I'll now turn the call back to Hilton.

Hilton Howell: Well, thank you, John. Jim, Kevin, hopefully have provided a great deal of perspective and visibility into our results and our operations. Before we open the call to your questions, I want to address how our Board of Directors currently views our capital allocation options over the next several months.

As Kevin said, there are no active conversations about station acquisitions at this time. Between the election and the spectrum auction, the typical owners who are likely to seek to solve the type of assets that Gray is interested in buying, all seemed to be waiting until these historic events end to explore sale. That timing is perfect for Gray.

When those events near their conclusion we will know more about how the election and/or the spectrum auction proceeds will impact our future strategic opportunities. Meanwhile as Jim explained, we closed the second quarter with a net leverage ratio of 5.25x, and we anticipate ending the year in low 4s. But we have reduced our leverage drastically over the past several years.

We remain ever mindful of our debt level both in absolute terms and relative to our peers. As the year ends with much more knowledge about our cash position, more insight for the overall direction of the economy in the near term and post spectrum auction opportunities as well as the elimination of elect poll uncertainties, our Board will fully consider the best allocation on the capital in hand.

The options may include, in no particular order, resuming our efforts to grow the efforts to prudent and opportunistic acquisitions, a market leading television stations; a return to our long history of paying regular dividends, the restarting of our stock buyback program and/or continuing our periodic pay downs of our outstanding debt. None of these options is mutually exclusive with any other options and sum combination of all maybe adopted.

In closing, I want to address the market's current valuation of Gray stock. It's a bargain. Remember that most of the Board and all of the inside directors and senior management collectively represent significant investors in Gray, indeed our positions in Gray represent significant portions of our individual and family balance sheets. As a result, we absolutely share your frustration with the volatility and price of Gray stock, especially over the past several months.

More importantly, we are all personally, professionally and highly motivated to take all appropriate actions that benefit to Gray's shareholders over the long term. Each and every decision that your Board of Directors makes and that your management team implements is undertaken with the singular purposes of increasing long term shareholder value, notwithstanding daily or weekly stock moves, nothing will alter this focus.

Thank you all for listening to our comments today. We thought that it would be important to take the time to address the results we announced, the milestones we achieved, our guidance for the current quarter and year and the many opportunities before us.

With that operator, we would like you to open the line for questions.

Operator: Certainly. Ladies and gentlemen, at this time we will begin the question and answer session. If you do have a question today, please press the star followed by the 1 on your pushbutton telephone. If you'd like to decline from the polling process you can press the star followed by the

2. As a reminder, if you are on speakerphone you will need to lift the handset first before making your selection. Once again, if there are any questions, please press star 1 at this time.

And our first question does come from the line of Marci Ryvicker with Wells Fargo Securities.

Marci Ryvicker: Thank you. And thank you so much for the opening comments. They are very appreciated especially for holders of the stock, I know. And a lot of my questions have been answered through opening comments, but I do have a couple of clarification.

The first Jim, can you talk about what drove the expense in the second quarter? And then the second question would be, it sounds very much like the weakness in national, is specific to the insurance category, and it really has nothing to do with the fact that you've moved away from tax?

Jim Ryan: Let me take the second part of the question first, Marci, and that, no, our switch to the direct rep model has had no impact on our national results during 2016. We think we are doing as good or perhaps even better than had we've been still working with our rep firm.

What we're seeing in the softness in national again, and in insurance, it was a couple of a large accounts that just for their own marketing purposes had been very -- spending a lot very heavy last year, cut back this year, we see that happened from time to time. But we are getting very good feedback from the national agencies. We're dealing directly with the person that is heading our national sales liaisons.

As a matter of fact, I was in Denver yesterday and met with two very large influential agencies and the feedback was extremely positive, so national comes and goes, people make buying decisions. Large national customers will shift money around the market sizes et cetera.

We had a very strong national last year, in part because of things like the insurance spending that I mentioned that was up because of marketing efforts and then you sometime see the flip side. But we are very confident that the direct rep approach is actually building for us better relationships with those large national agencies than we've had before.

As a complete aside, I mean, dollars are tiny, but in one market, last week because of the direct relationship we had and an agency was having trouble with the competing station in the market, they within the scope of a two-minute phone call flipped $20,000 to us. Now, that's tiny in the overall scheme of things, but it's indicative of what we're beginning to see as far as the relationships that we're building on a direct basis.

Switching to the expense beat, we were pleased; it's a couple of things. First of all, payroll came in year-over-year in a combined historical better than we've had initially anticipated. Part of that is probably in our guidance -- and when I do expense guidance, Marci, as you know, I tend to be a little conservative. We are being conservative again in the third quarter. Hopefully better time we report third quarter, again, we'll slip into the low side or maybe than a little bit better than that.

We are making progress with the staffing efficiencies. We saw going into our most recent acquisitions earlier this year and late last year. We're beginning to work through that. And so whether that hits Q3, Q4 is harder to tell, but we're beginning to realize the efficiencies, we always known were within those stations we were acquiring.

Marci Ryvicker: Great. Thank you so much.

Operator: And our next question does come from line of Leo Kulp with RBC Capital Markets.

Leo Kulp: Good morning, guys. Thanks for taking the question. I have a couple. First is, you very clearly laid out how your footprint by market compares pretty favorably to 2012, so what do you see is the key factors that would cause political to come in, ahead of where you are in '12 versus flat is, really just around the presidential or is there other things we should be keeping an eye on?

Kevin Latek: Leo, this is Kevin. Presidential, as I mentioned, tends to be a quarter to a third of our political revenue. I guess, if we had handicap out with a caveat that we're not political experts, the antidote seems to be that the Presidential dollars are moving down ticket, it's not just Koch Brothers, but a lot of folks who would typically have donated to political or to presidential are focusing their dollars on senate races, some house races and the senate is obviously more important this time around since the senate is clearly in play this year.

The difference between whether we meet or beat is probably going to be on the back for the lower ticket, down ticket candidacies in races like senate, like governor. You know, as with any cycle things come and go, we could not say, you know, we did not expect much in Indiana this year, now we have Evan Bayh putting his hat in the ring making that senate race very competitive, and of course, the governor is not running for reelection, running for a different office, so it's a whole new race we had not accepted.

On the flip side, we thought Colorado would be very competitive this year and the Republican nominees is already 15 points behind the incumbent Democrat. So that Colorado has quieted down. So we're going to see continually that we will be wrong on individual market predications.

And all we can really do is try to look for big trends and the overall results. And so since we don't have the good clarity into what's going to happen in any particular race, we've just shied away from any thoughts or expectations about an increase in political revenue. A $144 million being our record in 2012 on a pro forma basis would be a tremendous amount of money for us. And from everything we've seen we do expect to get there.

Leo Kulp: Got it. Thanks, Kevin. That's very helpful. And then second question. How are you thinking about the crowd out impact of Olympics? I mean, really just trying to get a sense for better understanding of how underlying core is pacing, if you could just back out the impact of the Olympics?

Hilton Howell: Ryan, on Olympics?

Jim Ryan: I think the way to look at that is to kind of think of the quarter as a whole and how it's pacing and for the whole quarter, as we said in our guidance, we core local to be up 2 to 4. And so obviously, the Olympics overall are driving a lot of that up. As we've said we've got $7.3 million so far booked. We are still selling the Olympics, which is perfectly normal on the local side for markets of our size. We often find some local advertisers will jump in after they see the opening ceremony, so that $7.3 million could move up a little bit.

Clearly there has been some dollars that shifted out of July into August, which we expected. And in September that's a little trickier to read because there is probably will be a little muting effect on core level because of political displacement, because as you know, political advertisers love local news first and foremost and so do our local advertisers, but that being said, I think up to 2% to 4% in core local for the quarter is very healthy. And, you know, admittedly I'm attributing a reasonable amount of that to, not all of it, but a reasonable amount to the Olympics.

Leo Kulp: Got it, okay. Thank you. That's helpful. And then just if I could squeeze one more. In your press release for the Green Bay, Davenport acquisition, there is a mention of some NOLs there. Can you quantify the impact of the NOLs?

(Crosstalk)

Jim Ryan: No didn't do any NOLs there, but we did -- that will be asset purchase, so we'll get a step up in basis and we'll be able to take forward tax deductions for most of that $270 million. Some of it will come off a little bit quicker over the first five years and then your goodwill and FCC licenses for tax purposes, you get straight line deductions over a 15 year.

So there is definitely, as we're switching into being a federal tax payer finally, having that asset step up in those future deductions, do help mute some of the tax bill we would otherwise had, had it been a stock purchase.

Leo Kulp: Do you have any estimate of what the present value of that benefit could be?

Jim Ryan: That's a little bit in the eyes of beholder, and I'm not trying to dodge that question a lot, but a lot would impact what your discount rate assumptions would be. But we think it's probably worth to us about one turn of multiple that acquisition, as you know, we announced it was about an eight times multiple straight up and we think the tax benefit is at least a term multiple, it's not actually more than that.

Leo Kulp: Got it. Thank you very much.

Operator: And our next question does come from the line of Jim Goss with Barrington Research.

Jim Goss: Thanks. You know, Jim this you might have touched on this a little bit indirectly, but as I am thinking about your Olympic value, to the extent that you have a pretty good concentration of NBC, but you have all of the networks represented in your platform. Is Olympics a net benefit or a net negative for you in an overall basis as you think about it?

Jim Ryan: We definitely think it's a net benefit, but clearly, and as we see, every Summer Olympics period, I mean, you know, we're not unaccustomed to it. Our dollars will switch, again, where we

CBS, ABCs and Fox's, dollars in the marketplace especially at the local level will switch from our stations to the incumbent NBC in August of in Olympic year and then comeback towards in September, so it's a normal cycle.

Jim Goss: And to the extent that there is a crowding out, do you capture some of it on your regular stations as the Olympics have a higher concentration on automotive as you said and some other things.

Jim Ryan: Yes, again, we view it all as a net positive to us, and again, if you take the entire quarter in context, we still think our local will be up 2% to 4% for the entire quarter, so, you know, we think that's -- obviously we're very pleased with the having the Olympics at our NBC stations over the next few weeks.

Jim Goss: Okay. And I have often thought that there is, to some extent, Gray is somewhat of a victim of its own success in terms of garnering so many political dollars out of your markets and then once political is gone then you have a couple of years before you get that impact again.

Do you feel any pressures or have any strategies to ever think about trying to fill in the gap, either from some of the efforts you've made in digital or some of the other things, you know, to maybe offset some of this cyclicality that you tend to get because of your success in political?

Jim Ryan: Well, it's a cycle we've seen, you know, every two years for as long as we could remember and we've always said we're very comfortable with that. And in our minds it's a very high class problem they have, which is why you've heard us say this many, many times in the past, we look at the business and manage our business on a two year, we don't necessarily think about it year-to-year or on-political, off-political, you know, up down. We think of it over a two-year full cycle.

So we're always striving, whether it's a political year or a non-political year, we always grow our core business, especially the core local business in each of our markets and, you know, that hasn't changed or nor will it change. Our station management is compensated on -- their incentive compensation is tied to a two-year average growth metric in their core and that's, you know, we constantly focus on a core regardless of whether the calendar year is odd or even.

Jim Goss: Okay. Maybe one last one, it could be for any of you. You know, there has been more discussion about a return to some of the advertising to TV from digital because television has shown, and broadcast has shown more resilience in terms of delivering customers. Do you have any thoughts on that benefit to your business?

Kevin Latek: You know, this is Kevin. You know, I guess, we're a little gratified to see some of those stories hit the media, because it's been certainly our experience on an anecdotal basis and talking to advertisers that moved some dollars to digital. And then found that that dollar didn't work for various reasons and dollars have been coming back to broadcast.

So on a local basis, while we have obviously some digital, we sell digital products and we have lots of conversations with clients who want to sell on another digital platforms I think we've been finding that locally folks have moving dollars, keeping some dollars in digital where it makes sense, but not writing television off.

And then the narrative, and the sort of general financial process has been very different from our experience, and it does seem that we're starting to hear more and more stories of other national producers are catching up what we were seeing locally, which is that digital serves a role and broadcast serves perhaps a distinct role, but certainly not a role to be discounted in the way that sort of the narrative has been over the last couple of years.

So I don't know if I can say, sort of its contributing, or it's a recent phenomenon, it's really just seems to make narrative standpoint that people are catching up to what we have been seeing now for couple of years locally.

Jim Goss: And are you seeing the numbers do you think to the extent what Jim just mentioned 2% to 4% increase is it starting to provide a little bit more of an upper bias to your add, the sales tends?

Kevin Latek: I don't think it would be unfair to say that. I mean, we will certainly expect that our local sales folks are making every effort to bring every dollar away from digital newspaper and the other medium out there to our stations.

We remain sort of pleased by our continued success of reporting, you know, continued core growth when we sometimes hear from folks that TV is dead and dying and this is going away of the pager business, I mean it's absolutely not the case.

And we will continue to show core growth quarter in and quarter out. So, you know, I think it's helpful for folks to start - to stop believing the narrative of -- on television and actually look at the result of us and our peers and for the most part our peers over the last couple of years have been showing the same result as we have, which is folks are on local basis and in some extent international basis are moving are advertising in us, the rates are increasing, demand is going up and we are out really comfortable and confident in our business.

Jim Goss: Okay. Thanks for your thoughts.

Operator: Ladies and gentlemen, if there are any additional questions, please press the star followed by the 1 at this time. Thank you, and as a reminder if you're on speakerphone you'll need to lift the handset first before making your selection. And our next question does come from the line of Kyle Evans with Stephens.

Kyle Evans: Hi, thanks for taking my question. I am looking at the retrans revenue guidance from your last investor deck $205 million for the year your actual for 2Q and the midpoint of your guide for 3Q. It appears to imply $3 million bump in 4Q re, I just want to make sure that I am reading that correctly?

Hilton Howell: At the investor deck, Kyle, that includes the retrans of 4KSPR and Springfield that we are operating under SSA. So the investor deck is design to give a complete representation of what kind of what it looks like in the overall universe. Now with respect to the SSA stationed that is not a consolidated entity by Gray.

We are deriving our benefit of that station through the SSAC that we earn. So the net cash flow impact of the retrans for that SSA station is actually flowing through as well as the rest of the stations benefit to us is actually flowing through our other revenue lines because that's what GAAP says we have to do with it. And the investor deck is design more to show what the whole entire universe looks like.

Kyle Evans: Okay. Fair.

Hilton Howell: I know it's kind of a long explanation. Does it make sense?

Kyle Evans: I think I can get it. If I look at the 2% to 4% pro form guide for local growth in 3Q just take the midpoint of 3 and then I back out I think what you said was you have $7.3 million booked for Olympics and three quarters of that is local if I back that out if it looks, you know, is it safe for me to adjust local that way and look at it and conclude that local would be down without the impact of the Olympics?

Hilton Howell: No, I don't think so because again if there were no Olympics then some of the natural shift of spending in August to anybody's NBC station won't be taking place. So we have proportionally stronger CBS and ABC season August. So I don't think it necessarily is linear as you are suggesting.

Kyle Evans: Okay and maybe I can ask that question at different way because I guess I am still focused on that $5.4 million of local Olympics. Is that what you are saying is that there is some pretty significant displacement attached to that and that's it's not a dollar for dollar add.

Hilton Howell: That's correct.

Kyle Evans: Okay. Alright I think that's it's from me. Thanks.

Hilton Howell: Thank you.

Operator: And our next question does come from line of David Atterbury with Whetstone Capital.

David Atterbury: Hey guys, thanks for taking my question. And thank you for the color you provided earlier on the call on capital allocation. I think that was really helpful for investors. I wanted to revisit the retrans comments you made earlier about 97% -98% of the subs coming up for renewal between now and 2017.

Could you provide any more color or refresh our memories on the vintage of those contracts that are being renewed and maybe compare and contrast that against where, you know, what you are observing in the market in terms of where subs are pricing today?

Kevin Latek: Sure this is Kevin. We virtually all of our retrans contracts are three year contracts. There is one exception we have one two-year contract and that's coming up end of this year. So the tenure of our retrans contract, you know, if they are coming out this year we did in three years ago. If they are coming up in the 2017 and they were negotiated at the end of 14 beginning of 15.

We have for better or for worse, and worse from personal standpoint, our contracts come up at the end of the year. We have not done a great job spreading them out throughout the year and so from an experience standpoint we did a whole bunch of contracts, as you know, end of ‘14 early ‘15 and then we had another group of a handful contracts we did at the beginning of this year and really those were all finished up in January, I should put a press release out announcing we concluded with some big folks with no disruption.

And those contracts gave us some insight into where things were but that was in January so sort of the seven or eight months since I can’t tell you that we have any particular experiences to where things are going we have the expectation, every expectation that retrans is continuing to move toward the position of more equilibrium given the value that the broadcast programming provides vis-à-vis the cable channel.

We have no reason to think it’s not that the rates are not going to continue to increase overtime and increase even over the course of several months. But I can’t tell you indefinitely because we not deal with NBPD now in eight months.

So I think our peers would have much more insight and kind of work things out as of today. I think we were certainly happy to see that Sinclair very pleased with the Comcast renewal of yesterday. I am sure there won’t be very pleased unless, you know, they were truly very pleased.

So we will, you know, we have said that our retrans guidance in the deck for 2017 is based on the rates that we had negotiated a couple of years earlier so there is potential for upside on what our retrans numbers would actually be in 2017 depending on how successful we are at the end of this year and how the market has moved by the time we get up to the contracts that are up at the end of this year.

David Atterbury: That's great Kevin. I appreciate all that information. That's it from me. Thanks.

Operator: And our next question does come from line of Tracy Young with Evercore ISI.

Tracy Young: Yes, hi. You may have spoken a bit about this before I apologize if I missed it, but in terms of auto obviously we are moving to peak in SAR, is there anything that you can say that gives comfort in terms of like two or three spending or in terms of foreign versus domestic brands? Thank you.

Hilton Howell: Tracy, our Q2 was up about 5% on a combined historical basis in auto. We saw strength in Chevy and to some end Nissan and Toyota were also up and up notably but Chevy was the big leader in Q2. We've seen some softness in Ford and expect that as well because we understand - as we understand they have made a decision to pull some dollars out of national spot across the country and reallocate for a while.

And you have seen the auto makers do that time and again and go and come back and go and come back. Q3 auto is pacing right now around a 3% up zip code, which we were pleased at I don't have a break down for Q3 as far as (courage) or, you know, domestic or foreign. But we are pleased with an over - you know, with plus 3 booking to-date for Q3. We are actually pleased with that.

Tracy Young: Okay. Thank you very much.

Operator: And at this time there are no further questions. I would like to turn the call back over to management for any closing comments.

Hilton Howell: Thank you very much operator and I just want to thank you each and every one of you for your interest in Gray and the company that we are building and we look towards bringing up-to-date a quarter from now but as always if anyone has any questions we are right here. Give us a ring. Thanks.

Operator: Thank you very much. Ladies and gentlemen that will conclude the conference for today. We do thank you for your participation. You may now disconnect your lines at this time.

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