Company: **GRAY TELVISION, INC.**

Conference Title: **Second Quarter 2017 Earnings**

Conference ID: **9602721**

Moderator: **Hilton Howell**

Date: **August 8, 2017**

Operator: Good day, and welcome to the Gray Television's Second Quarter 2017 Earnings Conference Call. Today's conference is being recorded. At this time, I would like to turn conference over to Mr. Hilton Howell. Please go ahead, sir.

Hilton Howell: Good morning. Thank you so much operator. As Jim, the operator, mentioned my name, it's Hilton Howell. I'm Chairman and CEO of Gray Television. I want to thank all of you for joining our second quarter 2017 earnings call.

As usual, I'm joined today by our Chief Legal and Development Officer, Kevin Latek; and our Chief Financial Officer, Jim Ryan.

We will begin this morning with the disclaimer that Kevin will provide. Kevin?

Kevin Latek: Thank you, Hilton. Good morning, everyone. Certain matters discussed on this call may include forward-looking statements regarding, among other things, future operating results. Those statements are subject to a number of risks and uncertainties. Actual results in the future could differ from those described in the forward-looking statements as a result of various important factors. Such factors have been set forth in the company's most recent reports filed with the SEC and included in today's earnings release. The company undertakes no obligation to update these forward-looking statements.

Gray uses its Website as a key source of company information. The Website address is www.gray.tv. We'll post both an audio recording and a transcript of this call on our Website.

Included on the call will be a discussion of non-GAAP financial measures, and in particular, broadcast cash flow, broadcast cash flow less corporate expenses, operating cash flow, free cash flow and certain leverage ratios. These metrics are not meant to replace GAAP measurements, but are provided as supplements to assist the public in their analysis and evaluation of our company. We included reconciliations of the non-GAAP financial measures to the GAAP measures in our financial statements that are available on our Website.

And now I will turn the microphone to Hilton.

Hilton Howell: Thank you, Kevin. As all of you might imagine, we are exceptionally pleased with our second quarter performance. Gray reported record results in really every single category. Throughout the quarter, we experienced accelerating marketing trends, which resulted in our exceeding the high end of our revenue guidance and through careful attention to our operating costs we reported expenses well below the low end of our guidance. The result was a monster quarter.

Overall, our total revenue, core revenue and retransmission revenue, all grew by double digits between the second quarter of 2016 and the second quarter of 2017. This performance plus the gain on disposal of two licenses as we had previously discussed, through our participation in the SEC reverse auction for broadcast spectrum produced fully diluted net income per share of 97 cents in the second quarter of 2017. As you all know, we're excited and passionate about the broadcast business and our position in it.

Later this week, we will be hosting the official unveiling of our newest television station facility in Madison, Wisconsin for our NBC and CW affiliate, WMTV. The state-of-the-art technology and proprietary workflows that Gray has perfected, and that we have incorporated into that building position our station to continue to deliver the high quality news and sales services that each of our markets are expected to achieve. Madison is an extremely important state capital and university town of the State of Wisconsin, a state that Gray operates a leading television station in every market say Milwaukee.

Looking ahead, we expect to finally see regulatory relief from the SEC in the coming months. We also expect to see official adoption by the SEC that the new ATSC 3.0 broadcast standard that should open entirely new opportunities for broadcasters. Later this year, we will negotiate hundreds of newly transmission consent agreements that collectively cover approximately 58% of our Big 4 subscribers.

Next, you will open with the Super Bowl and Winter Olympics across our 35 NBC markets which make up about 30% of our total household footprint. And of course, 2018 will bring dozens of key races from governor, senators and representatives in Gray's markets. It's a good time to be in television broadcasting and a great time for Gray Television.

At this point, I will turn the call over to Kevin Latek; and then to Jim Ryan for their comments and then we'll open the lines for questions.

Kevin Latek: Thank you, Hilton. Again, this is Kevin Latek: Last week on August 1, we closed the acquisition of WCAX, a CBS affiliated in Burlington, Vermont. We announced this latest addition to our portfolio simultaneously with our first quarter earnings call, and we commenced operating WCAX under a pre-closing LMA at June 1.

Now for the first time since late 2013, Gray doesn't have any pending acquisitions. Indeed, despite the SEC's year-long quiet period, Gray managed to work on several transactions last year that culminated in acquisitions of stations in Green Bay, Davenport, Gainesville, Bangor, Clarksburg and Fairbanks. This current low in M&A is both slightly welcoming and rather unexpected.

We are asked frequently why there are no announced deals this summer other than Tribune and Barton. We suspect that expectations for tax and regulatory policy changes maybe behind the reasons of many owners to explore selling their stations. But we simply do not know why owners are seemingly sitting on the sidelines right now. In any event, we will, as always approach M&A opportunities patiently and opportunistically.

On the last call, I highlighted the dominance of our television stations in the May ratings period. Today, I wish to highlight our recent successes with political sales. First, we do not own a television station in Atlanta and we, therefore, did not benefit from the historic spending on the recent special election in Georgia's Fourth Congressional district. Nevertheless, we posted $3.7 million in that political ad revenue in the second quarter which was significantly better than the $1 million in political revenue that we had anticipated.

We exceeded our guidance due to surprisingly strong candidate and issue money entering a handful of markets combined with the outside share of those adviser chief by our number one ranked stations in those markets.

Most of our markets participate in third-party revenue audits from among all local stations. These market audits allow us to measure our share of ad spending in various categories, including political. Some of the highlights in those audits include the following; first, while the amount of political ad dollars spent entering Gray's market was down considerably from the year-ago period, as you would expect this is an off year cycle, our aggregate share of political spending in the second quarter of 2017 was a very impressive 46%.

This represents an increase of 2.5% from our share of political spending in the second quarter of 2016. In other words, with less political money to spread around, the political buyers concentrated more of their spending on Gray's top ranked stations.

Second, in the five audited markets with the highest political spending during the second quarter, the stations with the larger share of those markets political dollars were all owned by Gray Television. Third, in those five largest audited markets, our stations individual shares with the respective market's political revenue during the second quarter were very impressive, they were 42%, 43%, 51%, 70% and even 73%.

Fifth, our stations maintained their political revenue shares in two of the five largest audited markets in the year-over-year basis. Our stations in the other three markets increased their shares by 3%, 9%, 17% over the second quarter of 2016. So while 2017 is an off-year to the political cycle, we believe the better-than-anticipated political activity to-date bodes well for political revenues in the second half of 2017. And as Hilton mentioned, 2018 will be a strong non-presidential election year.

Apart from these individual success stories, the third-party market audits at a higher level confirm that Gray continues to maintain or grow its share of political spending. This achievement is especially noteworthy as we enter the second anniversary of our historical announcement in August 2015 that we would transition our national and political ad sales from third-party national sales reps to our own in-house station sales teams. In other words, our impressive move to streamline our sales operations and in turn to save millions of dollars in national rep sales commission is also benefiting Gray by allowing us to better meet the needs of political ad buyers.

Incidentally, these same market audits also provide a very good news for us outside of political spending. Overall, the market audits reveal that total non-political or core spot revenue decreased somewhat on an aggregate basis in the second quarter. While our aggregate core spot revenue also decreased in this period, the decline for Gray stations in these markets was 30% less than the overall decline in these markets.

Our ability to hold that core spending relative to our peers is especially noteworthy because Gray stations in these audited markets experienced more political displacement than their peers. But consequently, as with political spending, we see again that as advertises pullback core ad spendings they reduce their budgets on our local competitor stations more than they reduce their spending on Gray stations.

Thank you for your time, and I will now turn the call over to Jim Ryan.

James Ryan: Thank you, Kevin. Good morning, everyone. Our earnings release has been filed in an 8-K this morning and the10-Q will be filed later today. In the 8-K that we filed this morning, we have also given on a quarter-by-quarter basis from 2014 through the second quarter of 2017, selected revenue and expense data by quarter, by year, on an as reported and also on a combined historical basis that match sets for all the acquisitions. Given that we don't have any pending acquisitions presently, we thought it was a good time to give everybody a complete dataset reflecting everything we've done over the last three-plus years.

During the quarter, Gray repurchased 322,038 shares of its common stock at an average price of $1,239 for an aggregate cost of $4 million. Our 2016 share repurchase authorized up to $75 million of repurchases through December 2019, we currently have $69 million left of that authorization. On an aggregate basis, to date under that authorization, we've repurchased 514,221 shares at an average price of $11.67.

Turning to the second quarter results, and our focus on the combined historical basis data, we were pleased that Q2 was sequentially better than Q1 with both local and national revenue better than expected. With our national revenue, we had two large communications companies that launched large ad campaigns during the quarter; we were very pleased to see that.

That increased spending is also continuing into the third quarter as well. Looking at core revenue throughout the quarter, April started relatively slow, May was up nicely, but June actually was the weakest month of our quarter, and a little bit of disappointing. But our broadcast operating expenses were lower than expected, our total payroll costs were actually $2.3 million lower over reflecting in part, our continuing efforts to implement the workflow in staffing synergy improvements at the stations we've acquired.

In addition, in Q2, we also had the benefit of favorable trending in our health and welfare plan. We were tracking about $800,000 lower this year than last year. Our leverage ratio on a trailing eight-quarter basis net of all cash and including the $90.8 million of spectrum proceeds which we received yesterday, our leverage ratio would have been 5.14.

We currently expect that by December 31 of 2017, our leverage ratio will fall further declining below 5 into the high 4s. And I'll also, again, mention as we have previously, that $90.8 million of spectrum proceeds has been structured as a reverse-like kind exchange, so any taxes associated with the sale of that spectrum have been deferred on a long-term basis.

Turning to our third quarter guidance, again, on a combined historical basis, it's obviously a tale of with and without the 2016 Olympics. In 2016, August of 2016, we earned approximately $8.2 million of core revenue from our Olympic broadcasts. That represented about 36% of our total NBC core revenue in August of '16. We're very proud of the achievements we had in '16 but it obviously makes for very difficult comp and a somewhat messy Q3 for comparisons.

However, we are pleased that on a combined historical basis we anticipate that local and national advertising revenue excluding the approximate $8.2 million of Olympic revenue will increase during the quarter in the low to mid-single digit percentage range. This represents a continuing sequential improvement in Q3 over Q1 -- Q2 and Q1.

Also for Q3, our total broadcast operating expenses will increase modestly by $6 million to $7 million. That entire increase can be attributed to increasing retransmission reverse comp which is tied directly to our increasing retransmission revenue. Our actual payroll costs for Q3 are expected to be consistent with last year at approximately $59 million. Again, it's reflecting our ongoing efficiency and workflow improvements with the acquired stations.

Now I'll turn the call back to Hilton.

Hilton Howell: Thank you, Jim. Operator, at this time, we would like to open up the call for any questions.

Operator: Certainly. If you'd like to ask a question please signal by pressing star 1 on your telephone keypad. If you're using a speakerphone please make sure your mute function is turned off to allow your signal to reach our equipment. Again, press star 1 to ask a question. And we'll pause for a moment to allow everyone an opportunity to signal for questions. We take our first question from Marci Ryvicker from Wells Fargo.

Marci Ryvicker: Thanks. The first one is just the underlying ad environment. Jim, you said June was sort of surprisingly weak. Can you talk about what happened with the specific category, was it macro, was it parts of the country? And then maybe talk a little bit about July and September, we know that August is a pretty tough month. And then, the second question and I have a follow-up after, is the lower expenses for Q2, I know you gave some detail but can you just sort of reconcile how you came in so much lower on the expense versus guidance?

James Ryan: Well, let's start with Q2 revenue first. As I said, it was down slightly. Our April started out a little low, in core it was down about 1%. May was up nicely, about 3.6% in core. And then, June again trailed off, down about 1.3% in the aggregate. I don't -- there was certainly nothing regional that I would point out to in that, it was fairly broad-based among multiple categories. We did see auto slow in June, I think I would describe it as it felt like especially at the local level, there was a hesitation.

So it was a little bit scattered around everything but turning to Q3, I think we're seeing similar trends. July looks like it's going to be relatively the slowest of the quarter. August is noisy with the Olympics but if we take out our NBC stations our non-NBC stations are up solidly mid-single digits. And then for September, we're expecting a good close to the quarter.

Business return for September, yes, just like we've seen in the first two quarters of this year is -- there is not a lot out there yet which is normal and especially normal in comparison to what we've been seeing so far this year. Also the last week of September actually falls into the October broadcast billing month, so that full last week of September business quite frankly, no one on the buy side has even begun to talk about better negotiate or replace it; so that whole last week of the quarter isn't going to hit until probably early September after Labor Day.

So all in all, we're -- we think our core is on the right track and we're -- I would say, we are cautiously optimistic that especially September will finish up pretty good unlike June. And I think one of the differences is, in June, if the buy side holds up a little bit, they shift over to third quarter and third quarter rates are naturally lower than second quarter rates. In September, it's the reverse; if they hesitate and try to push into fourth quarter, the rates are going to be higher for fourth quarter than they would have for September. So there is some incentive for them to place that business in September as we move forward over the quarter.

Hilton Howell: Expenses, again, we had the favorable tracking in the health and welfare that was the best part of $1 million, which was -- I have to say in all honesty, it was a pleasant surprise because that's always difficult to predict. We had also -- as we gave guidance for Q2 at the end of our Q1, we also had a couple of initiatives that we thought we were going to green light and move forward with that didn't take place in Q2.

Some of that is going to take place later in the year, some of it third quarter, and that's going to reflect in the third quarter guidance. But also it goes back to we've been working very hard on workflow improvements, staffing efficiencies; as we have said when we made those acquisitions over the last couple of years, in some cases, there were definite opportunities, we've been working hard on those, we're beginning to see the results of that.

When you do workflow improvements in a station, it's -- it can take months to get the equipment order installed, people trained up to speed, and then you finally get to the point where you can start working on your staffing. So we've been working on hard on that and I think we saw a good progress in Q2, we'll see more progress in Q3 and some additional progress late Q4 that probably actually rolls into Q1 next year.

Marci Ryvicker: Okay. And then -- thank you for that, I have one sort of follow-up for Kevin. I feel like there has been -- I know, there is a little low on M&A right now but we are waiting for the floodgates to open from September which hopefully the relaxation like ownership hold; how do you now see Gray's position? I feel like there has been sort of a change in tone towards something more transformative and just tuck-in, can you speak to that?

Kevin Latek: Hi, Marci. I think, we'll continue to keep an eye out for tuck-ins. And you're right, I think after the SEC makes clear with the new local ownership rules and then potentially where they may go after that, we'll move some folks off the sidelines and give us some additional opportunities.

You know, I know we already have two or more big fours in the 27 of our 57 markets, so we're -- we certainly like having these duopolies and certainly see a lot of reasons why we would want to have more.

We've been speaking, you're right on the last call, in particular, that you know, we're always looking to figure out what's the best portfolio, what's it from our shareholder standpoint. And we have -- I think, like most of our peers have said, we're open to a transformative transaction that makes sense for the shareholders.

At this point, it appears that all the players of scale, public and private are not for sale which makes a little difficult to do anything transformative but if there was a combination out there of companies that included Gray, we would -- and again, that made sense for our shareholders and our stations, etcetera; we'd certainly be open to having those conversations; it does not seem at this point that anything like that's is available. And again, much may change between now and the next call with the SEC pronouncements. Hilton, do you want to add anything on that?

Hilton Howell: Kevin, I think you've covered it fairly well. Gray has, I think demonstrated a very firm commitment to growing its shareholders value, and we've done a fantastic job. We all believe in terms of growing the company with some larger acquisitions at the time, some tuck-insurance but it is fair to say that Gray is certainly not a seller, but is willing to consider a transaction that would dramatically change the footprint of the company.

And so we are open to that, I believe our Board is open to that. But it depends, we have really high quality portfolio, I don't know if the public knows this but our average market share across all of our markets, 57 markets, is in the high 40s, the average number of streams that we put out in the market is right under four.

Gray delivers a tremendous amount in our news, departments and every one of our markets I think is witnessed by the investment we're making that was highlighted in TV technology in Madison, Wisconsin; we're doing the same thing in Rapid City, we did the same thing in Subplot, and we're soon going to be doing the same thing at Augusta, Georgia. And we are committed to what we're doing and we think what we do locally is critical. So we'd have to find someone who felt the same way about broadcasting and about its commitments to the community before we would consider anything.

Marci Ryvicker: Thank you very much.

Operator: We will now take our next question from Aaron Watts from Deutsche Bank.

Aaron Watts: One question on auto. I was curious if you're seeing any of the local dealers shifting their spending to digital; and if that's the case, are you able to capture the majority of that?

Hilton Howell: We're certainly in a position with our digital properties in our markets to capture that. I think we've been capturing our share of that for years as some of that has been shifting through. I mean, it's a little difficult for us to tell precisely how much on a local side is actually shifting.

We think -- as we've said before, we think in our sized markets we are probably a little bit more insulated than large metro markets but we don't deny that it has happened and it will probably continue to happen to some extent but we definitely think we're getting our fair share of that as its shifting through to the other side as our digital properties are among the most viewed and utilized digital sites within those markets.

Aaron Watts: Okay, got it. And Jim, I think you've mentioned this earlier, but just to be sure, you said auto was trending steady for third quarter relative to second?

James Ryan: Well, let's remove August from this discussion because it just gets real messy with $2 million plus of auto money as part of that $8.2 million of the Olympic money. July is flattish, as we've said, July -- just like April first quarter spread-out as a matter of January in Q1 is starting slow in general, that would include to some extent auto. September, it's a little too early to tell because a lot of business is yet to place but we are cautiously optimistic that September will come through, and we will finish of the quarter reasonably well.

Aaron Watts: Okay, got it. And then one big picture question from me; follow-on may be on some of the relaxation of rules/discussions. Understanding the markets that you currently live in, does the relaxation of rules pose any potential threat in terms of enticing networks to become buyers, take back affiliations, things of that nature?

Hilton Howell: Aaron, there is no network today that could not buy affiliates even in larger markets, small markets under the SEC's ownership rules. While CBS is at the cap, it has some CW full power stations, so it will allow them to buy stations in those markets without touching the cap where they could sell those big markets CWs, get themselves more headroom and go out and go shopping; NBC, Fox and ABC are under the cap -- obviously, ABC by quite a bit.

So nothing has changed from a regulatory standpoint from a year ago, two years ago, five years ago to today that would sort of open the door for the networks to buy their local affiliates. They can do that and unless remember, they built almost their entire portfolio stations exactly that way, they didn't wave a magic one and build these from scratch outside of the biggest stations and biggest markets, they bought stations over the last several decades; and we think they will continue to do so.

From Gray's perspective, obviously, we're interested in watching with the networks do in the larger markets but their largest market been Knoxville, Tennessee; BMA 62, we don't see that any network has any interest in planning in Gray's market and certainly, if you look at Omaha, Bismarck, Fairbanks, Alaska, I would say, it's a very safe that the networks don't want to be in those markets. So while we keep an eye on it we're not -- it's certainly just not a concern for Gray, it's not a risk factor for Gray whatsoever.

Aaron Watts: Okay, thank you.

Operator: Moving on, we'll take our next question from Dan Kurnos from the Benchmark Company.

Daniel Kurnos: Great, thanks, good morning. Jim I might have misheard this; did you talk about some two national ad campaign wins in the quarter?

James Ryan: Yes, we said that in the quarter we had two large communications companies jump in with ad campaigns that we were very pleased to see. And based on what we're seeing so far, it looks like that's going to continue at least through third quarter.

Daniel Kurnos: So national has obviously been kind of a soft spot except for, I guess, you guys. I mean is there anything in particular that made you guys attractive for that win? I mean smaller market presence; do you think that sort of differentiated yourself from what we've been seeing with some of the other players in the space?

James Ryan: I mean, I think, it really boils down to those particular companies and their own individual advertising needs and what their own marketing plans. But I do think -- I think, we've got very good shares of that business. And I think that effort on the share probably did help our overall Q2 and that we got, you know, we feel real good about the buys we did get.

Daniel Kurnos: Got it, thanks. And then, Kevin, not to, you know, nit-pick on this you're pretty tuned into sort of the Washington scene obviously there was a challenge that you adjust discount last time, I'm curious -- we think there is prior bit of challenge again to local market relaxation rules. Just wondering, what you think the merits, you know, either ProCon, how that might kind of play out after the September FCC meeting?

Kevin Latek: I would rarely make such a bold statement, except that I often do in this area. I said in my salary there will be a challenge to anything the FCC does on ownership rules because there has been a challenge to everything the FCC has done in ownership rules forever. In terms of the merits, let's remember the FCC adopted a one-to-one market rule in the 1940s, and has granted exactly one set of relief and that was in '99 and that was only for the top 80% or so of the market.

The restriction on nothing to get the two of the top four stations is really another way of saying there will be no consolidation in the bottom, so the 40% of markets because we -- and those markets only have roughly four commercial TV stations. So the only relief we've seen since 1940s on local TV ownership was really a limited relief for the larger markets.

And I think in terms of the merits, it will be easy to file a challenge and easy to claim that the world is going to stop spinning and it's in fact, in democracy itself is at stake if the FCC were to do anything whatsoever in this area. The truth is the world has changed a lot in the last 10 years, right along the last seven decades. So I think the merits are trying to argue that the SEC does not have either the authority or the wisdom to modify local TV ownership rules when we are bombarded with platforms and information and literally countless of sources is just silly. I, as a former lawyer, would never put my name on anything like that but now it doesn't stop people from filing all kinds of stuff.

So yes, there will be challenges. I think it's going to be -- as I said, when we had the state filed in the discount, it's a lot of noise, it's part of the game and probably because I live in the swamp, I'm more cynical than others but there is a lot of noise in DC on anything that happens because it's part of the culture of challenge and raise money with press releases and justify your existence as an interest group to challenge anything on either side of an issue. So of course, there is going to be challenges and regardless of whether there is any merit to it.

Daniel Kurnos: Got it, that's helpful color. And then just the last one from me since you did mention things were kind of in a lull, you know, sort of balancing the -- keeping some powder dry in case that transformative acquisition does manifest itself, just curious how you're thinking about balancing, you know, you've done a good job buying back your stock a lot cheaper, you know, it's come up a little bit but I'm sure, you still believe you're undervalued just balancing that and paying down debt incrementally that give yourself, you know, even more runways as you head into sort of cash flow rich 2018?

James Ryan: I think, as we said, before, I mean that's a balancing act and I think we will continue to try to balance those competing things as best we can as we move forward. In kind of the immediate short-term and until later in the year, I would expect that that $90.8 million of cash we received yesterday on the spectrum proceeds, we will probably hang onto for a little while as cash available, see if -- what if any opportunities may present themselves.

And then, if not, if there is not something either active or as looming as we move towards the end of the year, I think a reasonable amount of that would be used to pay down probably the term loan. And we will continue -- we've got -- repurchased authorization goes out to '19 we've got along right away on that both in time and dollars, we can deploy to that. And I think, again, you will from time-to-time -- you will see us repurchasing when we think it's in our best interest.

And as we move through, whether it's the next quarter, couple of quarters, next couple of years; I think over that multi-year period it was our hope and we said that repurchase out by the time we got to the end of '19, we wouldn't have left much on the table as far as availability. But I am also not saying, I mean, that comes with the caveat but that's all subject to market conditions and evaluations etcetera, etcetera. So again, we'll continue to try to balance capital returns, debt reduction and prudent M&A as we have the last several years.

Daniel Kurnos: Got it, great. Thanks for the color guys.

Operator: Moving on, we will take our next question from Kyle Evans from Stephens.

Kyle Evans: Thanks, good morning. When is the last time that Gray lost a network affiliation?

Hilton Howell: It never happened.

Kyle Evans: Okay. How -- what is the MBPD subcount trend looking like year-over-year, Jim?

James Ryan: I think we're basically holding our own.

Kyle Evans: Okay. And then, lastly...

Kevin Latek: Kyle, let me -- this is Kevin, let me just add. We are only now starting to see over-the-top providers rollout service in our markets. Again, being -- starting in Knoxville, Tennessee outside the Top 50, we were not in the first, second or third launch wave for these OTT guys. We are seeing now in this and the last couple of weeks, we've seen some of the OTT guys launching in our markets, two of them pretty significant launching in our markets.

So it's obviously too soon to even get a payment report on these folks but we think that the OTT solution or I should say, option available in the larger markets will become an option for folks and our markets who have cut the quarter and so we're not sort of putting too much worry into our overall subcounts because we are, I think, in a transition period. We've said before, we've signed a number of these OTT deals. I think we've signed a total 14 at this point, and we're happy with what we've signed, and we'll obviously evaluate more as they come forward.

But we will not be in a world where all these guys will be launching our stations and it's just -- we're just going to be a little behind the curve given the size of our markets and the cost of bringing up markets and perhaps the technological sophistication of some of our markets. But we will see some, I think -- some real sub-numbers on OTT maybe a year from now as some of these guys actually start to get into our markets and ramp up a bit.

Kyle Evans: Who are the two that have launched?

Kevin Latek: Sony and Hulu.

Kyle Evans: And then lastly, you guys have $7 million subs, I think that are up for renewal this year. How does that flow across the year and when does the financials on that hit the income statement? Thanks.

James Ryan: One hundred percent of the retrans contracts expire on December 31, and there will be of that group. Every -- because we're sadomasochists we believe in having every single contract expire on New Year's Eve, and so all will be repriced on January 1. If you look back at the last couple of years, you've seen that we have often said that we are not magically wedded to ruining our New Year's eve, and if it takes a couple of extra weeks or even sometimes several weeks to get a deal done into the New Year, we are willing to do that if it maintains an amicable negotiation that results in better terms for us, the actual day we signed it is completely meaningless to Gray Television.

When we extend a contract which we have done in many, many times, as conversations were ongoing in a fruitful way, and I think we've had very good conversations with folks almost without exception, we'll extend those and take some pressure off other folks, let them battle other broadcasters and cable networks around the holiday if that's what they need to do.

But if we ever extend or every single time we have extended and anytime we extend in the future, the extensions will always say that the economics will be applied retroactively to January 1. So, you know, if you call me on January 2 and ask how many contracts we have, did we do all of our contracts, the answer is I'm sure it will be no but as we get to the first quarter, I think we'll have them all done, again, all economic retro to January 1, 2018.

Kyle Evans: Great, thank you so much.

Operator: Moving on, we'll take our next question from John Kornreich from JK Media.

John Kornreich: Hi, just one number that jumped at me, maybe you could elaborate a bit. How was compensation down $2.5 million? I mean is your headcount down?

James Ryan: Yes. We've been working some of the stations we acquired last year and even the year before, we knew going in that we had some opportunities, a lot of those opportunities came with some capital investment to improve the workflow but we've been in select acquired stations where it was warranted, we've been working on that and yes, that's reflective of -- I'd say, the strategic, you know, reductions at certain stations, again, where it was warranted, it was not across the border or a blunt force instrument, it was very selective.

And we're continuing to do that, we've got a few more stations that we're working on. We've got a couple that are involved in, again, it gets back to getting the equipment installed and being able to get to the point where you can make the reductions. And we have some of those opportunities still coming up as we move through the second half of this year.

Now I don't think I can consistently come in with payroll under the year before but even if you hold it flat with 4,000 -- roughly 4,000 employees, that span, you're working hard on the basic number.

John Kornreich: Okay, thanks. See you next week. Bye-bye.

Operator: Moving on, we'll take our next question from Jim Goss from Barrington Research.

James Goss: Thanks. A little bit more on the OTT concept; CBS last night was talking about how well ahead of their schedule they are in rolling out CBS and Showtime OTT. They're more than halfway to 2020 goal in about 1.5 years. And I was wondering, you know, does that tie into the notion that you, I think, expressed that may be about from year from now it might start to hit some degree of meeting? And also does it matter to you in terms of DOIs whether it's the version that includes commercials or the version that does not?

Kevin Latek: Hi Jim, it's Kevin. I think of all access as differently than the others because all access is a direct-to-consumer product that obviously is pushing a lot more than just the local signal. We have not seen significant numbers there again thinking of our footprint, the types of markets that we're in, all access is for a very large majority of its customers, a compliment to their MVPD subscripting, not a replacement.

When the other -- the true OTT providers, the virtual MVPDS obviously are trying to sell a replacement for traditional MVPD service, so we really think of all access a little bit differently; so we don't -- I wouldn't say we anywhere near a significant number of all access customers and that may change a star-trek comes online.

To your second question, the ad versus no ad product; I don't see numbers that differentiate between an ad versus a no ad subscriber. That -- and again, that may change, it's just not something we've looked at, the numbers are too small that really weren't our time. The no ad product element, just to clarify, does not mean that the local station has no ads, it means the VOD content has no ads. So our ads will be -- our ads on all access are the same ads that we have over the year, regardless of whether it's a customer paying for ad free product or not an all access.

James Goss: Okay, thank you. Another question, probably also for Kevin. The Nexstar and Sinclair working together on a relationship involving ATSC 3.0, and I was wondering if -- what do you think comes out of that and is there room for Gray or others to participate in the sort of efforts that are looking at with the new technology of delivery?

Kevin Latek: Sure. The Sinclair Nexstar spectrum consortium now includes Univision and another smaller private group. As we understand the consortium, it's about pulling together the ones and zeros across the country as many as possible to provide a national reach on network for resell of those bids. Including Gray or other broadcasters, it's very much a part of their plans, as I understand it. It is something that Gray and other broadcasters should consider if they are not already doing so.

We will have to -- the calculus for being a part of that consortium really depends on where you are in the 3.0 transition. Right now as Hilton mentioned, we've put out an average of almost four streams per market, and we have a little less than two stations per market. So we have -- we are already using our spectrum in this 1.0 world, and most of our markets we have two HDs and then we have one or two standard definition signal, so there is not a lot of bits available for us to participate. When and if we transition a station to 2.0 we'll have a lot more spectrum available and if the best -- highest use of that spectrum is to provide those extra bits to the consortium, I think Gray will be foolish not to take part in that.

So we're certainly very interested in what the consortium is doing. I think it sends the right message to regulators, it sends the right message to technology vendors that there is a very serious commitment to 2.0 and Gray shares that commitment.

And, you know, it's something I'd say that, you know, we would -- we and others should be looking at and we, you know, obviously need to just get comfortable with kind of where the consortium kicks in, you know, versus 1.0 versus 3.0 world and I don't think that's an impossible question or riddle to solve since Nexstar, Sinclair, Univision and another group have already solved it. So we will certainly on our behalf, you know, evaluate that and on a big picture basis, I think it's a very good idea and we're very supportive of everything Nexstar, and especially Sinclair have done on 3.0 as well as NABN and Pearl and soon the FCC.

James Goss: Okay. And lastly, does the two of top four in America duopoly concept have any impact structurally or operationally with any your operations given -- I know you said the smaller markets are less affected but to the extent that you have four streams; can it be structured any differently that buys you some space that way?

Kevin Latek: We have -- Gray does not have any joint sales agreements among big four stations. Or I should say, we have no joint sales agreement outside of Univision JSA and Wichita. So we don't have any sort of historic arrangements that could suddenly become legal if the local ownership rules changed. If local ownership rules change, we could have -- we could own two of top four rated stations in the market, there will be opportunities presented in a number of our markets for us to acquire an additional station.

Where those opportunities are frankly not in all of our markets because we have a pretty sizeable position in a lot of them but there are markets -- there are certainly markets with opportunities for us. I think the bigger question for us is not will there be relief? What are the details of the relief? How far down will the SEC actually relax the rules? Will it be relief for all of us or just be relief for the big guys or it will be relief for the big guys and mid-sized markets?

So we -- as I've said publicly, we are hopeful the SEC will adopt any kind of rule that has a rational basis unlike the current rule that us zero rational basis.

James Goss: All right, thanks very much.

Operator: Moving on, we'll take our next question from Barry Lucas from Gabelli & Company.

Barry Lucas: Thank you and good morning. I'll try to keep it a little brief given we're coming up on the hour. But Jim, you're kind enough to toss a dart for leverage at year-end '17. Assuming that there are no deals and you put the spectrum auction proceeds to debt reduction, can you get below 4.5 times leverage at the end of 12/31/18?

James Ryan: Barry, I think -- I mean you can put all kinds of estimates on 2018, especially 2018s political; and as you know, we are not going to put a number out. But I'm confident that you can be below 4.5 under almost any scenario you wanted to set up assuming you take free cash - well, you can do it two ways, take free cash and reduce debt or you take free cash and just net it against the debt either way, it's a lot of free cash between the last two quarters of this year and the four quarters of next year.

I think there is a reasonable case to be made without getting too specific at '18 - you know, our view of '18. I think there is a reasonable case to be made that you can be in the low four's, and potentially, even into the high three's.

(Crosstalk)

James Ryan: Definitely, I can't imagine, you know, again, I'm just running the static model and applying free cash debt, I can't imagine how you couldn't -- I don't see how you could not be below 4.5.

Barry Lucas: Great, and then last one for me, since Kevin was talking about the number of streams that you broadcast in the market and I think you've done a fair amount of work with D2 and D3 signals; I was just hoping for a comment on the (Kate)'s acquisition by (Scripts) and that came out last week and what you think of that? Is there an opportunity to be part of that? Utilize the single? And, you know, any color you can provide that would be appreciated.

Kevin Latek: Sure, Barry, this is Kevin. We're certainly familiar with the folks there and their program offerings. You know, we think they've done a good job creating those programs streams and managing the business and obviously wish them well with the (Scripts) acquisition and vice versa. Across our company we have 200 streams and 57 markets, roughly half of them are big four, half of them are CWs and other non-big four channels. We do not have any channels from the (Kate)'s network.

We have certain priorities in markets of what we want to offer the components, the offerings we have in the market and competitively what we think is necessary in that market. We have found that couple of other networks, CW are the best compliment tool we have and our best sales opportunities, the best ratings opportunities; and for whatever reasons the line up on our stations has been CW, My Network, Me-TV and TV, those are by far big four affiliates on our multi-cast networks.

We have really concentrated on those, what we have -- we have some others out there including cozy from NBC. We -- those four make the most sense for our markets and frankly, some of those do better ratings from time-to-time than the big four channels in those markets. So we're very pleased with the four that we've really concentrated on and run it out our basis with the rest.

I will say that our portfolio of stations being number one in most of our markets has created a lot of interest in being on our stations on a D2, D3, D4 basis and frankly, we have a waiting list in every market, folks who want to be on our spectrum but we just don't have the spectrum available to launch anything else and the networks that they have offered, we decided just do not make sense in our market.

So we're not -- we don't have any real insight into them outside of -- they have made some nice pitches and they've run a nice business with some good networks, it just don't at this point make sense for our networks and for our markets.

Barry Lucas: Great. Thanks for that Kevin, I appreciate it.

Operator: Moving on, we'll take our next question from Leo Kulp from RBC Capital Markets.

Leo Kulp: Hi, good morning. Just a quick question on M&A, I apologize if you addressed it already. But if you were going to do a transformative deal, how you think about an outside equity investment to help fund an acquisition where the current stock price is?

Hilton Howell: Well, just suffice to say Leo, that Gray is open to consider things. I don't know that that's a direction that we would go but I'm sure we're not going to preclude it either. I don't plan on diluting the shareholders of Gray but I'm not going to preclude anything right now.

Leo Kulp: Thank you.

Operator: Moving on, we'll take a follow-up from Kyle Evans from Stephens.

Kyle Evans: Thanks. It's abundantly clear that the press release missile that was fired by Fox last week was not aimed at you but I was wondering if you would weigh in from your relatively safe vantage point? And just render an opinion on whether or not you think the Fox ION structure make sense? Thanks.

Kevin Latek: Kyle, to be clear, I haven't seen the press release on Fox, I've seen a reporter at Bloomberg who reported on a non-source of conversations between the Fox and ION. I've not seen a press release by Fox on that. From Gray's standpoint, it's meaningless, we have Fox exclusively in small markets on D2 and low-power stations; Fairbanks, Presque Isle, Bismarck, Sherman, Texas etcetera.

All told our Fox revenue is less than 5% of our company and our affiliations with folks are out another two years. In our small markets, we have a dominant station whether it's Sherman, Texas or Presque Isle or these others; we have Fox Bowling Green, that picks up typically half the viewership in the market if not more. And so Fox is a nice complement to what we have, it rounds out what the program offerings we have in the dominant legacy station.

But if Fox is no longer an option in most of those markets we have another Big 4 that we could affiliate with; and if not, we have CW, My Network, Me-TV, which are extremely viable options. And again, we've see even Me-TV get better ratings than Fox in some of our markets.

So demographically, you know, Fox is a good partner for us in those markets but it's not the only partner for us in these markets. On a sort of stepping back in a more global basis, you know, we respect that Fox and Ion and Sinclair had to do what’s best for their shareholders but it would seem to us that for many, many reasons Sinclair and Fox together makes a lot more sense for Fox than ION being in that equation at any level.

So we're always interested to see the latest Fox volley but at the end of the day, Sinclair brings a lot to Fox as do all affiliates; local branding, local presence, sales relationships and those are all important newsgathering efforts to support their national cable network that are just -- will be extremely difficult if not outright impossible to replicate. So despite the noise that seems to sometimes accompany Fox renewals, I think our money is on Sinclair and Fox finding an arrangement that make sense for Fox and Sinclair sometime over the next few months.

Kyle Evans: Thank you so much.

Operator: And at this time, gentleman, it appears there are no further questions.

Hilton Howell: All right. Well, thank you very much. We appreciate everyone joining us this morning, and we'll talk to you next quarter.

Operator: And that will conclude today's conference. We thank you for your participation. You may now disconnect.