GRAY TELEVISION INC
Form 10-K
February 28, 2019

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2018 or
Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from __________ to __________.

Commission File Number 1-13796

GRAY TELEVISION, INC.

(Exact Name of Registrant as Specified in its Charter)

Georgia	**58-0285030**
(State or Other Jurisdiction of	(I.R.S. Employer
Incorporation or Organization)	Identification No.)
4370 Peachtree Road, NE Atlanta, GA	**30319**
(Address of Principal Executive Offices)	(Zip Code)

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

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

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

Common Stock (no par value) **New York Stock Exchange**

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 232.405 of this chapter) is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See definition of "large accelerated filer," "accelerated filer", "smaller reporting company", and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one).

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company
Emerging growth company	

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the

Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

The aggregate market value of the voting stock (based upon the closing sales prices quoted on the New York Stock Exchange) held by non-affiliates of the registrant (solely for purposes of this calculation, all directors, executive officers and 10% or greater stockholders of the registrant are considered to be "affiliates") as of June 30, 2018: **Class A Common Stock and Common Stock; no par value –$1,261,840,180.**

The number of shares outstanding of the registrant's classes of common stock as of February 22, 2019: **Class A Common Stock; no par value –** 6,892,233 **shares; Common Stock, no par value –** 94,131,367 **shares.**

DOCUMENTS INCORPORATED BY REFERENCE

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

Gray Television Inc.

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PART 1

Item 1. Business.

In this annual report on Form 10-K (the "Annual Report"), unless otherwise indicated or the context otherwise requires, the words "Gray," the "Company," "we," "us," and "our" refer to Gray Television, Inc. and its consolidated subsidiaries.

Our common stock and our Class A common stock are listed on The New York Stock Exchange (the "NYSE") under the symbols "GTN" and "GTN.A."

Unless otherwise indicated, all station rank, in-market share and television household data herein are derived from reports prepared by Comscore, Inc. ("Comscore"). While we believe this data to be accurate and reliable, we have not independently verified such data nor have we ascertained the underlying economic assumptions relied upon therein, and cannot guarantee the accuracy or completeness of such data.

General

We are a television broadcast company headquartered in Atlanta, Georgia, that is one of the largest owners of television ("TV") stations and digital assets in the United States. Currently, we own and operate television stations in 91 television markets broadcasting almost 400 separate program streams including nearly 150 affiliates of the ABC Network ("ABC"), the NBC Network ("NBC"), the CBS Network ("CBS") and the FOX Network ("FOX"). We refer to these major broadcast networks collectively as the "Big Four" networks. Our television stations ranked first or second among all local television stations in 86 of our 91 markets between December 2017 and November 2018. Our station portfolio reaches approximately 24% of total United States television households. We also own video program production, marketing, and digital businesses including Raycom Sports, Tupelo-Raycom, and RTM Studios, the producer of PowerNation programs and content.

Our operating revenues are derived primarily from broadcast and internet advertising and from retransmission consent fees. For the years ended December 31, 2018, 2017 and 2016 our revenues were $1,084.1 million, $882.7 million and $812.5 million, respectively.

Acquisition of Raycom Media, Inc. and Related Transactions

On January 2, 2019, we completed our acquisition of Raycom Media, Inc. (“Raycom”). In addition, we acquired television stations KYOU-TV in the Ottumwa, Iowa / Kirksville, Missouri market and WUPV-TV in the Richmond/Petersburg, Virginia market that Raycom had previously agreed to acquire. In connection with these transactions, we also completed the divestitures of nine television stations in overlap markets to satisfy the conditions placed on these transactions by the Antitrust Division of the U.S. Department of Justice (the “DOJ”) and the Federal Communications Commission (the “FCC”). Together we refer to these transactions as the “Raycom Merger.” In addition, immediately prior to the closing of the Raycom Merger, Raycom completed the spin-offs to its shareholders of two of its wholly owned subsidiaries, CNHI, LLC and PureCars Automotive, LLC.

The Raycom Merger completed our transformation from a small, regional broadcaster to a leading media company with nationwide scale based on high-quality stations with exceptional talent in attractive markets. By combining these two great companies, we now own and operate television stations and leading digital properties in television markets from Alaska and Hawaii to Maine and Florida.

Markets and Stations

In the year ended December 31, 2018, we operated exclusively in television markets below the top 50 largest designated market areas (“DMAs”). Beginning on January 2, 2019, with the completion of the Raycom Merger, we operate television stations in 34 additional markets, including eight stations in DMAs larger than the top 50 television markets. We believe a key driver for our strong market position both in the past and in the future is our focus on strong local news and information programming. We believe that our market position and our strong local teams have enabled us to maintain more stable revenues compared to many of our peers.

We are diversified across our markets and network affiliations. In 2018 and 2017, our largest market by revenue was Springfield, Missouri, which contributed approximately 5% of our revenue each year. Our top 10 markets by Company revenue contributed approximately 32% and 30% of our revenue for the years ended December 31, 2018 and 2017, respectively. For the years ended December 31, 2018 and 2017, our NBC-affiliated channels accounted for approximately 33% of our revenue in each year; our CBS-affiliated channels accounted for approximately 36% of our revenue in each year; our ABC-affiliated channels accounted for approximately 18% of our revenue in each year; and our FOX-affiliated channels accounted for approximately 4% of our revenue.

In each of our markets, we own and operate at least one television station broadcasting a primary channel affiliated with one of the Big Four networks. We also own additional stations in some markets, some of which also broadcast primary channels affiliated with one of the Big Four networks. Nearly all of our stations also broadcast secondary digital channels that are affiliated with various networks, or are independent of any network. The terms of our affiliations with broadcast networks are governed by network affiliation agreements. Each network affiliation agreement provides the affiliated station with the right to broadcast all programs transmitted by the affiliated network. Our network affiliation agreements with the Big Four broadcast networks currently expire at various dates through December 2023.

Television Industry Background

The FCC grants broadcast licenses to television stations. There are only a limited number of broadcast licenses available in any one geographic area. Each commercial television station in the United States is assigned to one of 210 DMAs. These markets are ranked in size according to their number of television households, with the market having the largest number of television households ranked number one (New York City). Each DMA is an exclusive geographic area consisting of all counties (and in some cases, portions of counties) in which the home-market commercial television stations receive the greatest percentage of total viewing hours.

Television station revenue is derived primarily from local, regional and national advertising revenue and retransmission consent fees. Television station revenue is also derived to a much lesser extent from studio and tower space rental fees and production activities. “Advertising” refers primarily to advertisements broadcast by television stations, but it also includes advertisements placed on a television station’s website and sponsorships of television programming and off-line content (such as email messages, mobile applications, and other electronic content distributed by stations). Advertising rates are generally based upon: (i) the size of a station’s market, (ii) a station’s overall ratings, (iii) a program’s popularity among targeted viewers, (iv) the number of advertisers competing for available time, (v) the demographic makeup of the station’s market, (vi) the availability of alternative advertising media in the market, (vii) the presence of effective sales forces and (viii) the development of projects, features and programs that tie advertiser messages to programming and/or digital content on a station’s website or mobile applications.

Advertising rates can also be determined in part by a station's overall ratings and in-market share, as well as the station's ratings and market share among particular demographic groups that an advertiser may be targeting. Because broadcast stations rely on advertising revenues, they are sensitive to cyclical changes in the economy. The sizes of advertisers' budgets, which can be affected by broad economic trends, can affect the broadcast industry in general and the revenues of individual broadcast television stations.

Strategy

Our success is based on the following strategies:

Grow by Leveraging our Diverse National Footprint. We serve a diverse and national footprint of television stations. We currently operate in DMAs ranked between 11 and 209. We seek to operate in markets that we believe have the potential for significant political advertising revenue in periods leading up to elections. We are also diversified across our broadcast programming.

Maintain and Grow our Market Leadership Position. Based on the consolidated results of the December 2017 through November 2018 ratings periods, our owned and operated television stations achieved the #1 ranking in overall audience in 66 of our 91 markets. In addition, our stations achieved the #1 or #2 ranking in overall audience in 86 of our 91 markets.

We believe there are significant advantages in operating the #1 or #2 television broadcasting stations in a local market. Strong audience and market share allows us to enhance our advertising revenue through price discipline and leadership. We believe a top-rated news platform is critical to capturing incremental sponsorship and political advertising revenue. Our high-quality station group allows us to generate higher operating margins, which allows us additional opportunities to reinvest in our business to further strengthen our network and news ratings. Furthermore, we believe operating the top ranked stations in our various markets allows us to attract and retain top talent.

We also believe that our local market leadership positions help us in negotiating more beneficial terms in our major network affiliation agreements, which expire at various dates through December 2023, and in our syndicated programming agreements. These leadership positions also give us additional leverage to negotiate retransmission contracts with cable system operators, telephone video distributors, direct broadcast satellite (or "DBS") operators, and other multichannel video programming distributors (or "MVPDs").

We intend to maintain our market leadership position through continued prudent investment in our news and syndicated programs, as well as continued technological advances and workflow improvements. We expect to continue to invest in technological upgrades in the future. We believe the foregoing will help us maintain and grow our market leadership; thereby enhancing our ability to grow and further diversify our revenues and cash flows.

Continue to Pursue Strategic Growth and Accretive Acquisition Opportunities. Over the last several years, the television broadcasting industry has been characterized by a high level of acquisition activity. We believe that there are a number of television stations, and a few station groups, that have attractive operating profiles and characteristics, and that share our commitment to local news coverage in the communities in which they operate and to creating high-quality and locally-driven content. On a highly selective basis, we may pursue opportunities for the acquisition of additional television stations or station groups that fit our strategic and operational objectives, and where we believe that we can improve revenue, efficiencies and cash flow through active management and cost controls. As we consider potential acquisitions, we primarily evaluate potential station audience and revenue shares and the extent to which the acquisition target would positively impact our existing station operations. Consistent with this strategy, from October 31, 2013 through December 31, 2018, we completed 23 acquisition transactions and four divestiture transactions. These transactions added a net total of 50 television stations in 31 television markets, including 28 new television markets, to our operations. For more information on these transactions see Note 3 “Acquisitions and Dispositions” of our audited consolidated financial statements included elsewhere herein. This note also describes the stations we acquired in each of 2017 and 2016, which we may also refer to collectively as our “acquisitions,” our “recent acquisitions” or “the acquisitions.”

On January 2, 2019, we completed the Raycom Merger. Giving effect to the Raycom Merger, including divestitures of stations due to market overlaps, we now own and/or operate television stations and leading locally focused digital platforms in 34 additional markets. In addition to high quality television stations, as part of the Raycom Merger, we acquired businesses that provide sports marketing and production services, that we believe have made us a more diversified media company.

Continue to Monetize Digital Spectrum. In addition to each of our station's primary channel, we also broadcast a number of secondary channels. Certain of our secondary channels are affiliated with more than one network simultaneously. Our strategy includes expanding upon our digital offerings and sales. We also evaluate opportunities to use spectrum for future delivery of data to mobile devices using a new transmission standard.

Continue to Maintain Prudent Cost Management. Historically, we have closely managed our costs to maintain and improve our margins. We believe that our market leadership position provides us additional negotiating leverage to enable us to lower our syndicated programming costs. We have increased the efficiency of our stations by automating video production and back office processes. We believe that we will be able to further benefit from our cost and operational efficiencies as we continue to grow.

Further Strengthen our Balance Sheet. During the last several years, we have leveraged our strong cash flow and efficient operating model to grow our diverse national footprint. In recent years, we acted to improve the terms of our debt by amending or replacing our long-term debt in order to lock in more attractive terms while interest rates are at historically low levels. During 2017, we completed an underwritten public offering of 17.25 million shares of our common stock at a price to the public of $14.50 per share. The net proceeds of the offering were $238.9 million, after deducting underwriting discounts and expenses. We completed the Raycom Merger using a financing plan composed of combination of our cash on hand, common stock, preferred stock, attractively priced fixed rate debt and an amended term loan facility. We continually evaluate opportunities to improve our balance sheet.

Stations

The following table provides information about television stations owned by Gray Television, Inc. as of February 22, 2019:

DMA Rank (a)	Designated Market Area ("DMA")	Station Call Letters		Network Affiliation (b)	Primary Broadcast License Expiration Date (c)	Primary Channel Station Rank in DMA (d)
11	Tampa-St. Petersburg (Sarasota), FL	WWSB	(e)	ABC	2/1/2021	10
19	Cleveland-Akron (Canton)	WOIO	(e)	CBS	10/1/2021	4
19	Cleveland-Akron (Canton)	WUAB	(e)	CW	10/1/2021	6
23	Charlotte, NC	WBTV	(e)	CBS	12/1/2020	1
35	Cincinnati, OH	WXIX	(e)	FOX	8/1/2021	4
37	West Palm Beach-Ft. Pierce, FL	WFLX	(e)	FOX	2/1/2021	4
43	Birmingham (Ann and Tusc)	WBRC	(e)	FOX	4/1/2021	1
48	Louisville, KY	WAVE	(e)	NBC	8/1/2021	2
50	New Orleans, LA	WVUE	(e)	FOX	6/1/2021	1
51	Memphis, TN	WMC	(e)	NBC	8/1/2021	2
56	Richmond- Petersburg, VA	WWBT	(e)	NBC	10/1/2020	1
56	Richmond- Petersburg, VA	WUPV	(e)	CW	10/1/2020	5
60	Knoxville, TN	WVLT		CBS	8/1/2021	2
60	Knoxville, TN	WBXX		CW	8/1/2021	5
63	Lexington, KY	WKYT		CBS	8/1/2021	1
63	(Hazard, KY)	WYMT	(f)	CBS	8/1/2021	
65	Flint/Saginaw/Bay City, MI	WJRT		ABC		