

Non-GAAP Terms

From time to time, Gray supplements its financial results prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) by disclosing the non-GAAP financial measures Broadcast Cash Flow, Broadcast Cash Flow Less Cash Corporate Expenses, Operating Cash Flow as defined in Gray’s Senior Credit Agreement (“Operating Cash Flow”), Free Cash Flow and Total Leverage Ratio, Net of All Cash. These non-GAAP amounts are used by us to approximate the amount used to calculate key financial performance covenants contained in our debt agreements and are used with our GAAP data to evaluate our results and liquidity. These non-GAAP amounts may be provided on an As-Reported Basis as well as a Combined Historical Basis.

We define Broadcast Cash Flow as net income plus loss from early extinguishment of debt, corporate and administrative expenses, broadcast non-cash stock based compensation, depreciation and amortization (including amortization of intangible assets and program broadcast rights), any loss on disposal of assets, any miscellaneous expense, interest expense, any income tax expense, non-cash 401(k) expense less any gain on disposal of assets, any miscellaneous income, any income tax benefits, payments for program broadcast obligations and network compensation revenue.

We define Broadcast Cash Flow Less Cash Corporate Expenses as net income plus loss from early extinguishment of debt, non-cash stock based compensation, depreciation and amortization (including amortization of intangible assets and program broadcast rights), any loss on disposal of assets, any miscellaneous expense, interest expense, any income tax expense, and non-cash 401(k) expense, less any gain on disposal of assets, any miscellaneous income, any income tax benefits, payments for program broadcast obligations and network compensation revenue.

We define Operating Cash Flow as Combined Historical Basis net income plus loss from early extinguishment of debt, non-cash stock based compensation, depreciation and amortization (including amortization of intangible assets and program broadcast rights), any loss on disposal of assets, any miscellaneous expense, interest expense, any income tax expense, non-cash 401(k) expense and pension expenses less any gain on disposal of assets, any miscellaneous income, any income tax benefits, payments for program broadcast obligations, network compensation revenue and cash contributions to pension plans.

We define Free Cash Flow as net income plus loss from early extinguishment of debt, non-cash stock based compensation, depreciation and amortization (including amortization of intangible assets and program broadcast rights), any loss on disposal of assets, any miscellaneous expense, amortization of deferred financing costs, any income tax expense, non-cash 401(k) expense and pension expense, less any gain on disposal of assets, any miscellaneous income, any income tax benefits, payments for program broadcast obligations, network compensation revenue, contributions to pension plans, amortization of original issue discount on our debt, capital expenditures (net of any insurance proceeds) and the payment of income taxes (net of any refunds received).

Our Total Leverage Ratio, Net of All Cash is calculated as our Operating Cash Flow for the preceding eight quarters, divided by two, which is then divided by our long term debt, excluding net premiums and net deferred financing costs, but including any other debt, net of all cash.

These non-GAAP terms are not defined in GAAP and our definitions may differ from, and therefore not be comparable to, similarly titled measures used by other companies, thereby limiting their usefulness. Such terms are used by management in addition to and in conjunction with results presented in accordance with GAAP and should be considered as supplements to, and not as substitutes for, net income and cash flows reported in accordance with GAAP.

Reconciliation on As-Reported Basis – Quarter

Reconciliation of net income to the non-GAAP terms, in thousands

	Three Months Ended June 30,		
	2016	2015	2014
Net income	\$ 17,662	\$ 12,110	\$ 1,591
Depreciation	11,617	8,754	6,986
Amortization of intangible assets	4,242	2,731	1,179
Non-cash stock based compensation	1,272	1,009	980
Loss on disposals of assets, net	1,228	332	48
Miscellaneous income, net	(141)	(67)	(3)
Interest expense	24,269	18,587	15,825
Loss from early extinguishment of debt	-	-	4,897
Income tax expense	11,897	8,128	876
Amortization of program broadcast rights	4,813	3,553	3,005
Common stock contributed to 401(k) plan excluding corporate 401(k) contributions	7	7	6
Network compensation revenue recognized	-	-	(113)
Payments for program broadcast rights	(5,153)	(3,553)	(3,869)
Corporate and administrative expenses excluding depreciation, amortization of intangible assets and non-cash stock-based compensation	7,554	5,653	9,122
Broadcast Cash Flow	79,267	57,244	40,530
Corporate and administrative expenses excluding depreciation, amortization of intangible assets and non-cash stock based compensation	(7,554)	(5,653)	(9,122)
Broadcast Cash Flow Less Cash Corporate Expenses	71,713	51,591	31,408
Pension expense	40	1,789	1,519
Contributions to pension plans	(1,113)	(1,433)	(1,755)
Interest expense	(24,269)	(18,587)	(15,825)
Amortization of deferred financing costs	1,196	798	702
Amortization of net original issue premium on 7 1/2% senior notes due 2020	(216)	(216)	(216)
Purchase of property and equipment	(7,544)	(5,547)	(6,654)
Income taxes paid, net of refunds	(13,879)	(1,007)	(298)
Free Cash Flow	\$ 25,928	\$ 27,388	\$ 8,881

Reconciliation on As-Reported Basis – Year to Date

Reconciliation of net income to the non-GAAP terms, in thousands

	<u>Six Months Ended June 30,</u>		
	<u>2016</u>	<u>2015</u>	<u>2014</u>
Net income	\$ 26,652	\$ 17,705	\$ 2,868
Depreciation	22,743	17,552	13,370
Amortization of intangible assets	8,130	5,502	1,468
Non-cash stock based compensation	2,556	2,002	3,051
Loss (gain) on disposals of assets, net	(420)	314	379
Miscellaneous income, net	(710)	(74)	(3)
Interest expense	45,544	37,117	31,099
Loss from early extinguishment of debt	-	-	4,897
Income tax expense	18,312	12,068	1,735
Amortization of program broadcast rights	9,209	7,160	5,918
Common stock contributed to 401(k) plan excluding corporate 401(k) contributions	14	13	12
Network compensation revenue recognized	-	-	(221)
Payments for program broadcast rights	(9,130)	(7,141)	(7,692)
Corporate and administrative expenses excluding depreciation, amortization of intangible assets and non-cash stock-based compensation	22,264	11,750	14,268
Broadcast Cash Flow	145,164	103,968	71,149
Corporate and administrative expenses excluding depreciation, amortization of intangible assets and non-cash stock based compensation	(22,264)	(11,750)	(14,268)
Broadcast Cash Flow Less Cash Corporate Expenses	122,900	92,218	56,881
Pension expense	80	4,190	3,092
Contributions to pension plans	(1,633)	(1,433)	(2,717)
Interest expense	(45,544)	(37,117)	(31,099)
Amortization of deferred financing costs	2,267	1,597	1,394
Amortization of net original issue premium on 7 1/2% senior notes due 2020	(432)	(432)	(432)
Purchase of property and equipment	(13,475)	(8,396)	(10,456)
Income taxes paid, net of refunds	(14,019)	(1,248)	(329)
Free Cash Flow	\$ 50,144	\$ 49,379	\$ 16,334

Reconciliation on Combined Historical Basis – Quarter

Reconciliation of net income to the non-GAAP terms, in thousands

	Three Months Ended		
	June 30,		
	2016	2015	2014
Net income	\$ 18,108	\$ 17,065	\$ 18,003
Depreciation	11,652	11,186	11,052
Amortization of intangible assets	4,251	4,326	2,987
Non-cash stock-based compensation	1,272	1,009	980
Loss (gain) on disposals of assets, net	1,228	491	(19)
Miscellaneous income, net	(145)	(141)	(19)
Interest expense	24,314	23,476	21,437
Loss from early extinguishment of debt	-	-	4,897
Income tax expense	11,874	7,434	1,371
Amortization of program broadcast rights	4,813	3,553	3,077
Common stock contributed to 401(k) plan excluding corporate 401(k) contributions	8	7	6
Network compensation revenue recognized	-	-	(113)
Payments for program broadcast rights	(5,153)	(3,553)	(3,899)
Corporate and administrative expenses excluding depreciation, amortization of intangible assets and non-cash stock-based compensation	7,556	5,653	9,122
Other	268	6,525	7,136
Broadcast Cash Flow	80,046	77,031	76,018
Corporate and administrative expenses excluding depreciation, amortization of intangible assets and non-cash stock-based compensation	(7,556)	(5,653)	(9,122)
Broadcast Cash Flow Less Cash Corporate Expenses	72,490	71,378	66,896
Pension expense	40	1,789	1,519
Contributions to pension plans	(1,113)	(1,433)	(1,755)
Other	510	-	5,195
Operating Cash Flow as defined in Senior Credit Agreement	71,927	71,734	71,855
Interest expense	(24,314)	(23,476)	(21,437)
Amortization of deferred financing costs	1,196	798	702
Amortization of net original issue premium on 7 1/2% senior notes due 2020	(216)	(216)	(216)
Purchase of property and equipment	(7,544)	(6,250)	(8,750)
Income taxes paid, net of refunds	(12,769)	(1,250)	(1,250)
Free Cash Flow	\$ 28,280	\$ 41,340	\$ 40,904

Reconciliation on Combined Historical Basis – Year to Date

Reconciliation of net income to the non-GAAP terms, in thousands

	Six Months Ended		
	June 30,		
	2016	2015	2014
Net income	\$ 24,922	\$ 24,159	\$ 29,030
Depreciation	23,489	22,597	21,934
Amortization of intangible assets	8,972	8,822	4,910
Non-cash stock-based compensation	2,556	2,002	3,051
(Gain) loss on disposals of assets, net	(204)	526	(32)
Miscellaneous income, net	(741)	(173)	(27)
Interest expense	47,903	46,793	44,647
Loss from early extinguishment of debt	-	-	4,897
Income tax expense	18,127	10,856	1,477
Amortization of program broadcast rights	9,209	7,160	5,990
Common stock contributed to 401(k) plan excluding corporate 401(k) contributions	14	13	12
Network compensation revenue recognized	-	-	(221)
Payments for program broadcast rights	(9,130)	(7,141)	(7,722)
Corporate and administrative expenses excluding depreciation, amortization of intangible assets and non-cash stock-based compensation	22,264	11,750	14,268
Other	2,759	13,003	11,657
Broadcast Cash Flow	150,140	140,367	133,871
Corporate and administrative expenses excluding depreciation, amortization of intangible assets and non-cash stock-based compensation	(22,264)	(11,750)	(14,268)
Broadcast Cash Flow Less Cash Corporate Expenses	127,876	128,617	119,603
Pension expense	80	4,190	3,092
Contributions to pension plans	(1,633)	(1,433)	(2,717)
Other	7,245	-	5,195
Operating Cash Flow as defined in Senior Credit Agreement	133,568	131,374	125,173
Interest expense	(47,903)	(46,793)	(44,647)
Amortization of deferred financing costs	2,267	1,597	1,394
Amortization of net original issue premium on 7 1/2% senior notes due 2020	(432)	(432)	(432)
Purchase of property and equipment	(13,475)	(12,500)	(17,500)
Income taxes paid, net of refunds	(14,019)	(2,500)	(2,500)
Free Cash Flow	\$ 60,006	\$ 70,746	\$ 61,488

Reconciliation of Total Leverage Ratio, Net of All Cash

Reconciliation of net income to the non-GAAP term, in thousands

Combined Historical Basis Operating Cash Flow as defined in the Senior Credit Agreement:	Eight Quarters Ended	
	June 30, 2016	
Net income	\$	148,423
Depreciation		91,589
Amortization of intangible assets		38,151
Non-cash stock-based compensation		8,537
(Gain) loss on disposals of assets, net		1,461
Miscellaneous income, net		(1,002)
Interest expense		191,226
Loss from early extinguishment of debt		189
Income tax expense		69,125
Amortization of program broadcast rights		31,183
Common stock contributed to 401(k) plan excluding corporate 401(k) contributions		53
Network compensation revenue recognized		(235)
Payments for program broadcast rights		(31,137)
Corporate and administrative expenses excluding depreciation, amortization of intangible assets and non-cash stock-based compensation		64,890
Other		33,906
Broadcast Cash Flow		646,359
Corporate and administrative expenses excluding depreciation, amortization of intangible assets and non-cash stock-based compensation		(64,890)
Broadcast Cash Flow Less Cash Corporate Expenses		581,469
Pension expense		7,321
Contributions to pension plans		(11,107)
Other		14,714
Operating Cash Flow as defined in Senior Credit Agreement	\$	592,397
Operating Cash Flow as defined in Senior Credit Agreement, divided by two	\$	296,199
		June 30, 2016
Adjusted Total Indebtedness:		
Long term debt	\$	1,705,361
Capital leases and other debt		644
Total deferred financing costs, net		29,745
Premium on subordinated debt, net		(3,668)
Cash		(176,345)
Adjusted Total Indebtedness, Net of All Cash	\$	1,555,737
Total Leverage Ratio, Net of All Cash		5.25