GRAY TELEVISION INC
Form 10-Q
August 09, 2006

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

(Mark one)

þ **Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the quarterly period ended June 30, 2006 or

o **Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the transition period from __________ to __________.

Commission file number 1-13796
Gray Television, Inc.
(Exact name of registrant as specified in its charter)

Georgia	**58-0285030**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
4370 Peachtree Road, NE, Atlanta, Georgia	**30319**
(Address of principal executive offices)	(Zip code)

(404) 504-9828
(Registrant s telephone number, including area code)
Not Applicable
(Former name, former address and former fiscal year, if changed since last report.)

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer o Accelerated filer þ Non-accelerated filer o

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

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practical date.

Common Stock, (No Par Value)	**Class A Common Stock, (No Par Value)**
42,302,990 shares outstanding as of August 1, 2006	**5,753,020 shares outstanding as of August 1, 2006**

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GRAY TELEVISION, INC.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

GRAY TELEVISION, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)
(in thousands)

	June 30, 2006	December 31, 2005
Assets:		
Current assets:		
Cash and cash equivalents	$ 7,441	$ 9,315
Trade accounts receivable, less allowance for doubtful accounts of $659 and $565, respectively	58,142	58,436
Current portion of program broadcast rights, net	3,386	8,548
Related party receivable	9	1,645
Deferred tax asset	1,599	1,091
Other current assets	4,067	2,149
Total current assets	74,644	81,184
Property and equipment:		
Land	20,651	20,011
Buildings and improvements	41,387	35,903
Equipment	251,125	220,787
	313,163	276,701
Accumulated depreciation	(127,174)	(113,940)
	185,989	162,761
Deferred loan costs, net	12,786	13,954
Broadcast licenses	1,059,066	1,023,428
Goodwill	269,972	222,394
Other intangible assets, net	4,661	3,658
Investment in broadcasting company	13,599	13,599
Related party investment	3,430	1,682
Other	3,453	2,394
Total assets	$ 1,627,600	$ 1,525,054

See notes to condensed consolidated financial statements.

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GRAY TELEVISION, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)
(in thousands)

	June 30, 2006	December 31, 2005
Liabilities and stockholders equity:		
Current liabilities:		
Trade accounts payable	$ 19,088	$ 4,803
Employee compensation and benefits	8,669	9,567
Current portion of accrued pension costs	3,649	3,051
Accrued interest	9,076	4,463
Other accrued expenses	6,589	12,366
Federal and state income taxes	1,952	1,833
Current portion of program broadcast obligations	7,430	10,391
Acquisition related liabilities	1,204	4,033
Deferred revenue	3,807	697
Current portion of long-term debt	4,500	3,577
Total current liabilities	65,964	54,781
Long-term debt, less current portion	853,843	788,932
Program broadcast obligations, less current portion	2,354	960
Deferred income taxes	276,762	253,341
Long-term deferred revenue	3,698	2,190
Other, including non-current portion of accrued pension costs	5,959	4,764
Total liabilities	1,208,580	1,104,968
Commitments and contingencies (Note H)		
Redeemable Serial Preferred Stock, no par value; cumulative; convertible; designated 5 shares, respectively, issued and outstanding 4 shares, respectively ($39,640 aggregate liquidation value, respectively)	39,134	39,090
Stockholders equity:		
Common Stock, no par value; authorized 100,000 shares, respectively, issued 45,427 shares and 45,259 shares, respectively	442,326	441,533
Class A Common Stock, no par value; authorized 15,000 shares, respectively; issued 7,332 shares, respectively	15,321	15,282
Retained earnings (deficit)	(25,460)	(22,662)
Accumulated other comprehensive loss, net of income tax	(1,104)	(1,257)
Unearned compensation		(736)
	431,083	432,160
	(28,799)	(28,766)

Treasury Stock at cost, Common Stock, 2,226 shares and 2,222 shares, respectively		
Treasury Stock at cost, Class A Common Stock, 1,579 shares, respectively	(22,398)	(22,398)
Total stockholders equity	379,886	380,996
Total liabilities and stockholders equity	$ 1,627,600	$ 1,525,054

See notes to condensed consolidated financial statements.

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GRAY TELEVISION, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)
(in thousands except for per share data)

	Three Months Ended June 30, 2006	Three Months Ended June 30, 2005	Six Months Ended June 30, 2006	Six Months Ended June 30, 2005
Revenues (less agency commissions)	$ 81,391	$ 67,988	$ 149,626	$ 126,297
Operating expenses:				
Operating expenses before depreciation, amortization and loss on disposal of assets, net:	45,538	39,585	90,602	78,279
Corporate and administrative	2,916	3,033	6,660	5,777
Depreciation	8,312	5,461	16,048	10,874
Amortization of intangible assets	710	210	1,302	417
Loss on disposals of assets, net	189	51	271	84
	57,665	48,340	114,883	95,431
Operating Income	23,726	19,648	34,743	30,866
Other income (expense):				
Miscellaneous income, net	59	159	405	453
Interest expense	(16,656)	(11,312)	(32,123)	(22,425)
Loss on early extinguishment of debt		(4,770)	(110)	(4,770)
Income from continuing operations before income taxes	7,129	3,725	2,915	4,124
Income tax expense	2,809	1,472	1,149	1,622
Income from continuing operations	4,320	2,253	1,766	2,502
Income from operations of discontinued publishing and wireless operations net of income tax expense of $0, $746, $0 and $1,941, respectively		1,140		2,966
Net income	4,320	3,393	1,766	5,468
Preferred dividends (includes accretion of issuance cost of $22, $22, $44, and $44, respectively)	815	814	1,629	1,629
Net income available to common stockholders	$ 3,505	$ 2,579	$ 137	$ 3,839
Basic per share information:				
Net income from continuing operations available to common stockholders	$ 0.07	$ 0.03	$	$ 0.02
Income from discontinued operations, net of tax		0.02		0.06
Net income available to common stockholders	$ 0.07	$ 0.05	$	$ 0.08
Weighted average shares outstanding	48,791	48,639	48,767	48,619

Diluted per share information:				
Net income from continuing operations available to common stockholders	$ 0.07	$ 0.03	$	$ 0.02
Income from discontinued operations, net of tax		0.02		0.06
Net income available to common stockholders	$ 0.07	$ 0.05	$	$ 0.08
Weighted average shares outstanding	48,791	48,851	48,782	48,948
Dividends declared per share	$ 0.03	$ 0.03	$ 0.06	$ 0.06

See notes to condensed consolidated financial statements.

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GRAY TELEVISION, INC.
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY AND COMPREHENSIVE INCOME (Unaudited)
(in thousands except for number of shares)

	Class A Common Stock		Common Stock		Retained Earnings	Class A Treasury Stock		Common Treasury Stock		Accumulated Other Comprehensive Income	Unearned Compensatio	
	Shares	Amount	Shares	Amount	(Deficit)	Shares	Amount	Shares	Amount	(Loss)		
31,	7,331,574	$ 15,282	45,258,544	$ 441,533	$ (22,662)	(1,578,554)	$ (22,398)	(2,221,550)	$ (28,766)	$ (1,257)	$ (736)	$
e					1,766							
, net tax										153		
nsive												
cation tion				(736)							736	
Stock ends r					(2,935)							
Stock					(1,629)							
f												
n			113,196	842								
stock			55,000									
e of Stock								(4,100)	(33)			
		39		296								
and												

d ion				391								
006	7,331,574	$ 15,321	45,426,740	$ 442,326	$ (25,460)	(1,578,554)	$ (22,398)	(2,225,650)	$ (28,799)	$ (1,104)	$	

See notes to condensed consolidated financial statements.

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GRAY TELEVISION, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)
(in thousands)

	Six Months Ended June 30, 2006	Six Months Ended June 30, 2005
Operating activities		
Net Income	$ 1,766	$ 5,468
Adjustments to reconcile Net Income to net cash provided by operating activities:		
Depreciation	16,048	11,702
Amortization of intangible assets	1,302	417
Amortization of deferred loan costs	1,168	878
Amortization of bond discount	66	70
Amortization of restricted stock awards	243	196
Amortization of stock option awards	148	
Write off loan acquisition costs from early extinguishment of debt	(2)	2,684
Amortization of program broadcast rights	6,804	5,657
Payments on program broadcast obligations	(4,408)	(5,668)
Supplemental employee benefits	(19)	(25)
Common Stock contributed to 401(K) Plan	842	848
Deferred income taxes	1,033	2,617
Loss on disposal of assets, net	271	339
Other	765	705
Changes in operating assets and liabilities, net of business acquisitions:		
Receivables, inventories and other current assets	2,963	602
Accounts payable and other current liabilities	6,916	(1,786)
Accrued interest	4,613	(3,005)
Net cash provided by operating activities	40,519	21,699
Investing activities		
Acquisition of television businesses and licenses, net of cash acquired	(85,243)	(13,945)
Purchases of property and equipment	(14,430)	(17,095)
Proceeds from assets sales	29	
Payments on acquisition related liabilities	(1,968)	(520)
Other	(1,998)	485
Net cash used in investing activities	(103,610)	(31,075)
Financing activities		
Proceeds from borrowings on long term debt	100,000	1,938
Repayments of borrowings on long-term debt	(34,230)	(22,421)
Deferred loan costs		(1,595)
Dividends paid, net of accreted preferred dividend	(4,520)	(10,381)
Income tax benefit relating to stock plans		404
Proceeds from issuance of Common Stock		2,303

Purchase of Common Stock	(33)	(5,235)
Net cash provided by (used in) financing activities	61,217	(34,987)
Net decrease in cash and cash equivalents	(1,874)	(44,363)
Cash and cash equivalents at beginning of period	9,315	50,566
Cash and cash equivalents at end of period	$ 7,441	$ 6,203

See notes to condensed consolidated financial statements.

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GRAY TELEVISION, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

NOTE A BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements of Gray Television, Inc. (Gray , we , us , our or the Company) have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair statement have been included. The Company s operations consist of one reportable segment. Operating results for the six month period ended June 30, 2006 are not necessarily indicative of the results that may be expected for the year ending December 31, 2006. For further information, refer to the consolidated financial statements and footnotes thereto included in Gray s Annual Report on Form 10-K for the year ended December 31, 2005.

Stock-Based Compensation Effect of Adoption of SFAS 123(R)

On January 1, 2006, Gray adopted Statement of Financial Accounting Standards No. 123(R) (SFAS 123(R)), *Share Based Payment*. Prior to January 1, 2006, Gray accounted for stock-based awards under the intrinsic value method, which followed the recognition and measurement principles of APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and related interpretations. The intrinsic value method of accounting resulted in our recognition of expense over the vesting period of restricted stock awards. The expense recognized was equal to the fair value of the restricted shares on the date of grant based on the number of shares granted and the quoted price of our common stock. Under the intrinsic value method we did not recognize any compensation costs for our stock options because the exercise prices of the options were equal to the market prices of the underlying stock on the date of grant.

Gray adopted SFAS123(R) using the modified prospective method, which requires measurement of compensation cost for all stock based awards at fair value on the date of grant and recognition of compensation over the service period for awards expected to vest. The recognized expense is net of expected forfeitures and the restatement of prior periods is not required. The fair value of restricted stock is determined based on the number of shares granted and the quoted market price of our common stock. The fair value of stock options is determined using the Black-Scholes valuation model, which is consistent with our valuation techniques previously utilized for options in footnote disclosures under Statement of Financial Accounting Standards No. 123, *Accounting for Stock Based Compensation*, as amended by Statement of Financial Accounting Standards No. 148, *Accounting for Stock Based Compensation Transition and Disclosure*.

On March 29, 2005, the Securities and Exchange Commission (SEC) published Staff Accounting Bulletin No. 107 (SAB 107), which provides the Staff s views on a variety of matters related to stock based payments. SAB 107 requires that stock based compensation be classified in the same expense line items as cash compensation. The application of SFAS 123(R) had the following effect on the three months and six months ended June 30, 2006 reported amounts relative to amounts that would have been reported using the intrinsic value method under previous accounting (in thousands, except per share amounts):

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NOTE A BASIS OF PRESENTATION (Continued)

Stock-Based Compensation Effect of Adoption of SFAS 123(R) (Continued)

	Three months ended June 30, 2006		
	Previous Accounting Method	SFAS 123 (R) Adjustments	As Reported
Income from operations	$23,798	$ 72	$23,726
Income before income taxes	$ 7,201	$ 72	$ 7,129
Net income available to common stockholders	$ 3,548	$ 43	$ 3,505
Net income available to common stockholders per common share:			
Basic	$ 0.07	$	$ 0.07
Diluted	$ 0.07	$	$ 0.07
Cash flow from operating activities	$	$	$
Cash flow from financing activities	$	$	$

	Six months ended June 30, 2006		
	Previous Accounting Method	SFAS 123 (R) Adjustments	As Reported
Income from operations	$34,891	$ 148	$34,743
Income before income taxes	$ 3,063	$ 148	$ 2,915
Net income available to common stockholders	$ 226	$ 89	$ 137
Net income available to common stockholders per common share:			
Basic	$	$	$
Diluted	$	$	$
Cash flow from operating activities	$	$	$
Cash flow from financing activities	$	$	$

Stock-Based Compensation Valuation Assumptions for Stock Options

No stock options were granted during the six months ended June 30, 2006. The fair value for each stock option granted in the six months ended June 30, 2005 was estimated at the date of grant using the Black-Scholes option pricing model, using weighted average assumptions as follows: risk free interest rate 3.7%; dividend yield of 0.81%; volatility of the expected market price of the Company s stock of 0.33 and a weighted average expected life of the options of 4.28 years. The Company s expected forfeitures were 2.5%. Expected volatilities are based on historical volatilities of our common stock and Class A common stock. The expected life represents the weighted average period of time that options granted are expected to be outstanding giving consideration to the vesting schedules and our historical exercise patterns. The risk free rate is based on the U.S. Treasury yield curve in effect at the time of grant for periods corresponding to the expected life of the option. Expected forfeitures were estimated based on historical forfeiture rates.

NOTE A BASIS OF PRESENTATION (Continued)

Stock-Based Compensation Fair-Value Disclosures Prior to SFAS 123(R) Adoption

Stock based compensation for the six months ended June 30, 2005 was determined using the intrinsic value method. The following table provides supplemental information for the three and six months ended June 30, 2005 as if stock-based compensation had been computed under SFAS 123(R) (in thousands, except per share data):

	Three Months Ended June 30, 2005	Six Months Ended June 30, 2005
Net income available to common stockholders, as reported	$ 2,579	$ 3,839
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects		
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(666)	(855)
Net income available to common stockholders, pro forma	$ 1,913	$ 2,984
Net income per common share:		
Basic, as reported	$ 0.05	$ 0.08
Basic, pro forma	$ 0.04	$ 0.06
Diluted, as reported	$ 0.05	$ 0.08
Diluted, pro forma	$ 0.04	$ 0.06

Earnings Per Share

Gray computes earnings per share in accordance with Statement of Financial Accounting Standards No. 128, Earnings Per Share (EPS). The following table reconciles weighted average shares outstanding basic to weighted average shares outstanding diluted for the three and six months ended June 30, 2006 and 2005 (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
Weighted average shares outstanding basic	$ 48,791	$ 48,639	$ 48,767	$ 48,619
Stock options, warrants, convertible preferred stock and restricted stock		212	15	329
Weighted average shares outstanding diluted	$ 48,791	$ 48,851	$ 48,782	$ 48,948

For all periods presented the Company generated net income; therefore, common stock equivalents related to employee stock-based compensation plans, warrants and convertible preferred stock were included in the computation of diluted earnings per share to the extent that their exercise costs and conversion prices exceeded market value. The number of antidilutive common stock equivalents excluded from diluted earnings per share for the respective periods are as follows (in thousands):

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NOTE A BASIS OF PRESENTATION (Continued)

Earnings Per Share (Continued)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
Antidilutive common stock equivalents excluded from diluted earnings per share	5,447	4,674	5,463	4,557

Subsequent Event

During the month of July 2006, the Company purchased 898,100 shares of its own common stock (ticker: GTN) for a total cost of $5.6 million. Theses shares are currently held in treasury.

Changes in Classifications

The classification of certain prior period amounts in the accompanying condensed consolidated financial statements have been changed in order to conform to the current year presentation.

Recent Accounting Pronouncements

In July 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation Number 48, *Accounting for Uncertainty in Income Taxes An Interpretation of FASB Statement No. 109,* (FIN 48). FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 requires management to evaluate its open tax positions that exist on the date of initial adoption in each jurisdiction. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company has not yet determined the effect of implementing this standard.

NOTE B BUSINESS ACQUISITIONS AND DISPOSITION

On March 3, 2006, the Company acquired all of the capital stock of Michiana Telecasting Corporation, operator of WNDU-TV, from The University of Notre Dame. The total cost was $88.8 million, which included the contract price of $85.0 million, working capital adjustments of $3.4 million and transaction costs of $0.4 million. WNDU-TV serves the South Bend Elkhart, Indiana television market and is an NBC affiliate. In January 2006, the Company borrowed $100.0 million under its senior credit facility. These funds were used to fund the acquisition of WNDU-TV and to reduce other portions of the Company s then outstanding revolving credit facility debt.

The acquisition of WNDU-TV was accounted for under the purchase method of accounting. Under the purchase method of accounting, the results of operations of an acquired business are included in the accompanying condensed consolidated financial statements as of its acquisition date. The identifiable assets and liabilities of the acquired business are recorded at their estimated fair values with the excess of the purchase price over such identifiable net assets allocated to goodwill. The amounts assigned to these assets and liabilities are preliminary pending receipt of all transactional costs. The following table summarizes the preliminary fair values of the assets acquired and the liabilities assumed at the date of the acquisition of WNDU-TV (in thousands):

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NOTE B BUSINESS ACQUISITIONS AND DISPOSITION (Continued)

Description	**Amount**
Cash	$ 3,311
Accounts receivable	2,784
Current portion of program broadcast rights	421
Other current assets	61
Program broadcast rights excluding current portion	260
Property and equipment	22,382
Broadcast licenses	35,640
Goodwill	46,712
Other intangible assets	2,322
Trade payables and accrued expenses	(2,687)
Current portion of program broadcast obligations	(436)
Deferred income tax liability	(21,782)
Program broadcast obligations excluding current portion	(195)
Total purchase price including expenses	$ 88,793

The goodwill recorded in association with the acquisition is not deductible for income tax purposes. Broadcast licenses and goodwill are indefinite lived intangible assets.

Pro Forma Operating Results Assuming WNDU-TV and WSAZ-TV Were Acquired on January 1, 2005 (Unaudited)

On November 30, 2005, the Company acquired the assets of WSAZ-TV. The Company s acquisitions of WNDU-TV and WSAZ-TV are significant in comparison to the Company s previously existing operations. Therefore, the following unaudited pro forma information is provided to disclose the effect of both acquisitions.

This unaudited pro forma operating data does not purport to represent what the Company s actual results of operations would have been had the Company acquired WNDU-TV and WSAZ-TV on January 1, 2005 and should not serve as a forecast of the Company s operating results for any future periods. The pro forma adjustments are based solely upon certain assumptions that management believes are reasonable under the circumstances at this time. Unaudited pro forma operating data for the three and six months ended June 30, 2006 and 2005 are presented as though WNDU-TV and WSAZ-TV had been acquired at the beginning of the respective periods as follows (in thousands, except per common share data):

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NOTE B BUSINESS ACQUISITIONS AND DISPOSITION (Continued)

Pro Forma Operating Results Assuming WNDU-TV and WSAZ-TV Were Acquired on January 1, 2005 (Unaudited) (Continued)

	Pro Forma for the Three Months Ended June 30,		Pro Forma for the Six Months Ended June 30,	
	2006	2005	2006	2005
	(Unaudited)		(Unaudited)	
Operating revenues	$ 81,391	$ 77,942	$ 152,211	$ 144,573
Operating income	23,726	22,113	34,520	34,131
Income from continuing operations, net of taxes	4,320	1,615	1,356	567
Net income	4,320	2,755	1,356	3,533
Preferred dividends	815	814	1,629	1,629
Net income (loss) available to common stockholders	$ 3,505	$ 1,941	$ (273)	$ 1,904
Basic per share information:				
Income (loss) from continuing operations available to common stockholders	$ 0.07	$ 0.02	$ (0.01)	$ (0.02)
Income from discontinued operations, net of income taxes		0.02		0.06
Net income (loss) available to common stockholders	$ 0.07	$ 0.04	$ (0.01)	$ 0.04
Weighted average shares outstanding	48,791	48,639	48,767	48,619
Diluted per share information:				
Income (loss) from continuing operations available to common stockholders	$ 0.07	$ 0.02	$ (0.01)	$ (0.02)
Income from discontinued operations, net of income taxes		0.02		0.06
Net income (loss) available to common stockholders	$ 0.07	$ 0.04	$ (0.01)	$ 0.04
Weighted average shares outstanding	48,791	48,851	48,767	48,948

In addition to the operating results of WNDU-TV and WSAZ-TV, the pro forma results presented above include adjustments to reflect (i) additional interest expense associated with debt to finance the acquisition, (ii) depreciation and amortization of assets acquired and (iii) the income tax effect of such pro forma adjustments.

2005 Spinoff

On December 30, 2005, the Company completed the spinoff of all of the outstanding stock of Triple Crown Media, Inc. (TCM). Immediately prior to the spinoff, the Company contributed all of the membership interests in Gray Publishing, LLC which owned and operated the Company s Gray Publishing and GrayLink Wireless businesses and certain other assets to TCM. The financial position and results of operations of the publishing and wireless businesses are reported in the Company s consolidated balance sheet and statement of operations as discontinued operations for the three and six months ended June 30, 2005.

NOTE C LONG-TERM DEBT

As of December 31, 2005, Gray s senior credit facility consisted of a revolving facility, term loan A facility and a term loan B facility. In addition, an incremental loan facility was also made available under the senior credit facility. On January 31, 2006, Gray borrowed $100.0 million under the incremental loan facility (term loan C) partially to finance the acquisition of WNDU-TV as well as to reduce the outstanding revolving credit facility.

The amount outstanding under the senior credit facility as of June 30, 2006 was $601.8 million and was allocated as follows: revolving loan of $4.0 million, term loan A of $150.0 million, term loan B of $348.3 million and term loan C of $99.5 million. As of June 30, 2006, Gray had $96.0 million of available credit under the senior credit facility.

During the six months ended June 30, 2006, Gray repurchased $1.1 million, face amount, of its Senior Subordinated Notes due 2011 (the 9 1/4% Notes) in the open market. Associated with this repurchase, Gray recorded a loss upon early extinguishment of debt of $110,000. As of June 30, 2006, Gray s 9 1/4% Notes had a balance outstanding of $256.6 million excluding unaccreted discount of $0.7 million.

The 9 1/4% Notes are jointly and severally guaranteed (the Subsidiary Guarantees) by all of Gray s subsidiaries (the Subsidiary Guarantors). The obligations of the Subsidiary Guarantors under the Subsidiary Guarantees are subordinated, to the same extent as the obligations of Gray in respect of the 9 1/4% Notes, to the prior payment in full of all existing and future senior debt of the Subsidiary Guarantors (which will include any guarantee issued by such Subsidiary Guarantors of any senior debt).

Gray is a holding company with no material independent assets or operations, other than its investment in its subsidiaries. The aggregate assets, liabilities, earnings and equity of the Subsidiary Guarantors are substantially equivalent to the assets, liabilities, earnings and equity of Gray on a consolidated basis. The Subsidiary Guarantors are, directly or indirectly, wholly owned subsidiaries of Gray and the Subsidiary Guarantees are full, unconditional and joint and several. All of the current and future direct and indirect subsidiaries of Gray are guarantors of the 9 1/4% Notes. Accordingly, separate financial statements and other disclosures of each of the Subsidiary Guarantors are not presented because Gray has no independent assets or operations, the guarantees are full and unconditional and joint and several and any subsidiaries of the parent company other than the Subsidiary Guarantors are minor. The senior credit facility is collateralized by substantially all of Gray s existing and hereafter acquired assets except for real estate.

On February 9, 2006, the Company entered into an interest rate swap agreement having a notional amount of $100.0 million. Under this agreement, the Company will pay at an annual fixed rate of 5.05% and receive interest at the 90 day LIBOR rate. The swap agreement will expire on January 3, 2007.

During the month of July 2006, Gray purchased and retired $3.5 million, face amount, of its 9.25% Senior Subordinated Notes.

NOTE D RETIREMENT PLANS

The following table provides the components of net periodic benefit cost for Gray s pension plans for the three and six months ended June 30, 2006 and 2005, respectively (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
Service cost	$ 669	$ 758	$ 1,339	$ 1,457
Interest cost	367	325	733	650
Expected return on plan assets	(322)	(222)	(643)	(472)
Loss amortization	93	139	186	239
Net periodic benefit cost	$ 807	$ 1,000	$ 1,615	$ 1,874

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NOTE D RETIREMENT PLANS (Continued)

During the three and six months ended June 30, 2006, Gray contributed $791,000 and $1.5 million to its pension plans respectively. During the remainder of 2006, Gray expects to contribute an additional $2.1 million to its pension plans.

NOTE E LONG TERM INCENTIVE PLAN

On December 30, 2005, the Company completed the spinoff of TCM. As a result of the change in the underlying value of the Company s common stock, on January 3, 2006, the Company adjusted the exercise price and corresponding number of options in its incentive plans. The adjustment affected all of the employees holding the Company s stock options. All of the other terms and conditions of the options remained unchanged. The fair market value of the options outstanding prior to the adjustment was equal to the fair market value of the outstanding options after the adjustment. Therefore the adjustment did not result in an accounting charge for the Company.

On September 16, 2002, the shareholders of the Company approved the 2002 Long Term Incentive Plan (the 2002 Incentive Plan), which replaced the prior long-term incentive plan, the 1992 Long Term Incentive Plan. Originally, the 2002 Incentive Plan had 2.8 million shares of the Company s common stock reserved for grants to key personnel for (i) incentive stock options, (ii) non-qualified stock options, (iii) stock appreciation rights, (iv) restricted stock awards and (v) performance awards, as defined by the 2002 Incentive Plan. On May 26, 2004, the shareholders of the Company approved an amendment to the 2002 Incentive Plan, which increased the number of shares reserved for issuance thereunder by two million shares to a total of 4.8 million shares. As of June 30, 2006, 2.6 million shares were available for issuance under the 2002 Incentive Plan. Shares of common stock underlying outstanding options or performance awards are counted against the 2002 Incentive Plan s maximum shares while such options or awards are outstanding. Under the 2002 Incentive Plan, the options granted typically vest after a two-year period and expire three years after full vesting. However, options will vest immediately upon a change in control of the Company as such term is defined in the 2002 Incentive Plan. All options have been granted with purchase prices that equal the market value of the underlying stock on the date of the grant. During 2003, the Company granted 100,000 shares of restricted stock to the Company s president of which 60,000 shares were fully vested as of June 30, 2006. During 2003 and in connection with this grant, the Company recorded a liability for unearned compensation of $1.4 million.

On May 14, 2003, the Company s shareholders approved a restricted stock plan for its Board of Directors (the Directors Restricted Stock Plan). The Company has reserved 1.0 million shares of the Company s common stock for issuance under this plan and as of June 30, 2006 there were 880,000 shares available for award. The Directors Restricted Stock Plan replaced the Company s non-employee director stock option plan. Under the Directors Restricted Stock Plan, each director can be awarded up to 10,000 shares of restricted stock each calendar year. Under this plan, the Company granted 55,000 and 5,000 shares of restricted common stock, in total, to its directors during the six months ended June 30, 2006 and 2005, respectively. Of the total shares granted to the directors since the beginning of the directors plan, 40,000 shares were fully vested as of June 30, 2006.

The total amount of unearned compensation for all restricted stock was originally equal to the market value of the shares as of the date of grant. The unearned compensation is being amortized as an expense over the vesting period of the stock. Unearned compensation for all outstanding restricted stock as of June 30, 2006 and December 31, 2005 was $968,000 and $736,000, respectively. Upon the adoption of SFAS 123(R), this liability was reclassified from unearned compensation to common stock.

Included in expenses recognized in the three and six months ended June 30, 2006 is $193,000 and $391,000 of non-cash expense for stock-based compensation. The amounts presented for the three and six months ended June 30, 2005 include $98,000 and $196,000 respectively for non-cash stock based compensation related to restricted stock awards.

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NOTE E LONG TERM INCENTIVE PLAN (Continued)

A summary of the Company s stock option activity for class A common stock, and related information, for the six months ended June 30, 2006 is as follows (in thousands, except weighted average data):

	Six Months Ended June 30, 2006	
	Options	Weighted Average Exercise Price
Stock options outstanding beginning of period	19	$ 17.81
Adjustment related to spinoff of TCM	3	15.39
Stock options outstanding end of period	22	$ 15.39
Exercisable at end of period	22	$ 15.39

The exercise price for class A common stock options outstanding as of June 30, 2006 is $15.39. The weighted-average remaining contractual life of the class A common stock options outstanding is 2.4 years.

A summary of the Company s stock option activity for common stock, and related information for the six months ended June 30, 2006 is as follows (in thousands, except weighted average data):

	Six Months Ended June 30, 2006	
	Options	Weighted Average Exercise Price
Stock options outstanding beginning of period	1,664	$ 11.20
Adjustment related to spinoff of TCM	238	9.80
Options forfeited	(6)	8.82
Stock options outstanding end of period	1,896	$ 9.80
Exercisable at end of period	1,673	$ 9.75

Information concerning common stock options outstanding has been segregated into four groups with similar option prices and is disclosed as follows:

As of June 30, 2006

Exercise Price Per Share Low	Exercise Price Per Share High	Number of Options Outstanding (in thousands)	Weighted Average Exercise Price Per Share	Average Remaining Contractual Life (in years)	Number of Options Outstanding That Are Exercisable (in thousands)	Weighted Average Exercise Price Per Share of Options That Are Exercisable
$ 7.13	$ 8.91	362	$ 7.94	1.9	310	$ 7.94
$ 8.91	$10.69	1,154	$ 9.69	2.2	1,051	$ 9.69
$10.69	$12.47	304	$11.71	1.9	304	$11.71
$12.47	$14.25	76	$12.77	3.7	8	$12.86

1,896	1,673

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NOTE E LONG TERM INCENTIVE PLAN (Continued)

The closing market price of the Company s common stock was less than the exercise price for all of the company s outstanding stock options. Therefore, outstanding options as of June 30, 2006 and options vested during the six months ended June 30, 2006 had no intrinsic value. No options were exercised in the six months ended June 30, 2006.

All of the Company s options for its class A common stock are vested. The following table summarizes the Company s non-vested options for its common stock and restricted shares during the six months ended June 30, 2006:

	Number of Shares	Weighted Average Fair Value
Nonvested common stock options, December 31, 2005	206,000	$ 2.59
Adjustment	29,497	2.59
Vested	(12,575)	2.59
Nonvested common stock options, June 30, 2006	222,922	$ 2.53
Nonvested common restricted shares, December 31, 2005	65,000	$ 12.73
Granted	55,000	8.65
Vested		
Nonvested common restricted shares, June 30, 2006	120,000	$ 10.86

As of June 30, 2006, there was $1.2 million of total unrecognized compensation cost related to all nonvested share based compensation arrangements. The cost is expected to be recognized over a weighted average period of 1.3 years.

NOTE F EMPLOYEE STOCK PURCHASE PLAN

On May 14, 2003, the Company s shareholders approved the adoption of the Gray Television, Inc. Employee Stock Purchase Plan (the Stock Purchase Plan). The Stock Purchase Plan is intended to qualify as an employee stock purchase plan under Section 423 of the Internal Revenue Code and to provide eligible employees of the Company with an opportunity to purchase the Common Stock through payroll deductions. An aggregate of 500,000 shares of the Common Stock are reserved for issuance under the Stock Purchase Plan and are available for purchase, subject to adjustment in the event of a stock split, stock dividend or other similar change in the common stock or the capital structure of the Company. As of June 30, 2006, 383,840 shares were available under the plan. The price per share at which shares of common stock may be purchased under the Stock Purchase Plan during any purchase period is 85% of the fair market value of the common stock on the last day of the purchase period. The Company s board of directors has the discretion to establish a different purchase price for a purchase period provided that such purchase price will not be less than 85% of the fair market value of the Common Stock on the transaction date. For the three and six months ended June 30, 2006, the Company expensed approximately $26,000 and $56,000, respectively. For the three and six months ended June 30, 2005, the Company expensed approximately $41,000 and $63,000, respectively.

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NOTE G GOODWILL AND INTANGIBLE ASSETS

A summary of changes in the Company s goodwill and other intangible assets for the six months ended June 30, 2006 is as follows (in thousands):

	Net Balance at December 31, 2005	Acquisitions And Adjustments	Impairments	Amortization	Net Balance at June 30, 2006
Goodwill	$ 222,394	$ 47,578	$	$	$ 269,972
Broadcast licenses	1,023,428	35,638			1,059,066
Definite lived intangible assets	3,658	2,305		(1,302)	4,661
Total intangible assets net of accumulated amortization	$ 1,249,480	$ 85,521	$	$ (1,302)	$ 1,333,699

As of June 30, 2006 and December 31, 2005, the Company s intangible assets and related accumulated amortization consisted of the following (in thousands):

	As of June 30, 2006			As of December 31, 2005		
	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
Intangible assets not subject to amortization:						
Broadcast licenses	$ 1,112,765	$ (53,699)	$ 1,059,066	$ 1,077,127	$ (53,699)	$ 1,023,428
Goodwill	269,972		269,972	222,394		222,394
	$ 1,382,737	$ (53,699)	$ 1,329,038	$ 1,299,521	$ (53,699)	$ 1,245,822
Intangible assets subject to amortization:						
Network affiliation agreements	$ 1,263	$ (552)	$ 711	1,039	$ (447)	$ 592
Other definite lived intangible assets	13,484	(9,534)	3,950	11,413	(8,347)	3,066
	$ 14,747	$ (10,086)	$ 4,661	$ 12,452	$ (8,794)	$ 3,658
Total intangibles	$ 1,397,484	$ (63,785)	$ 1,333,699	$ 1,311,973	$ (62,493)	$ 1,249,480

During the six months ended June 30, 2006, the Company recorded $85.5 million of additional intangible assets. Of this amount, $84.7 million was associated with the acquisition of WNDU-TV and this amount was allocated among goodwill, broadcast licenses and definite lived intangible. Also, $862,000 was related to additional costs related to the acquisition of WSAZ-TV and this amount was allocated to WSAZ-TV s goodwill. Based on the current amount of intangible assets subject to amortization, the amortization expense for the succeeding five years is as follows: 2006: $1.1 million; 2007: $806,000; 2008: $773,000; 2009: $558,000 and 2010: $467,000. As acquisitions and dispositions occur in the future, actual amounts may vary from these estimates.

NOTE H COMMITMENTS AND CONTINGENCIES

The Company is subject to legal proceedings and claims that arise in the normal course of its business. In the opinion of management, the amount of ultimate liability, if any, with respect to these actions, will not materially affect the Company s financial position.

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NOTE H COMMITMENTS AND CONTINGENCIES (Continued)

Legal Proceedings and Claims

Tarzian Litigation

The Company has an equity investment in Sarkes Tarzian, Inc. (Tarzian) representing shares in Tarzian which were originally held by the estate of Mary Tarzian (the Estate). As described more fully below, the Company s ownership of the Tarzian shares was subject to certain litigation, which has now concluded.

On February 12, 1999, Tarzian filed suit in the United States District Court for the Southern District of Indiana against U.S. Trust Company of Florida Savings Bank as Personal Representative of the Estate, claiming that Tarzian had a binding and enforceable contract to purchase the Tarzian shares from the Estate. On February 3, 2003, the Court entered judgment on a jury verdict in favor of Tarzian for breach of contract and awarded Tarzian $4.0 million in damages. The Estate appealed the judgment and the Court s rulings on certain post-trial motions, and Tarzian cross-appealed. On February 14, 2005, the U.S. Court of Appeals for the Seventh Circuit issued a decision concluding that no contract was ever created between Tarzian and the Estate, reversing the judgment of the District Court, and remanding the case to the District Court with instructions to enter judgment for the Estate. Tarzian s petition for rehearing was denied by the Seventh Circuit Court of Appeals, and the U.S. Supreme Court denied Tarzian s petition for certiorari. Tarzian also filed a motion for a new trial in the District Court based on the Estate s alleged failure to produce certain documents in discovery. The District Court denied Tarzian s motion, the Seventh Circuit Court of Appeals affirmed the District Court s ruling, and on June 12, 2006 the U.S. Supreme Court denied Trazian s petition for certiorari, ending the litigation between Tarzian and the Estate.

On March 7, 2003, Tarzian filed suit in the United States District Court for the Northern District of Georgia against Bull Run Corporation and the Company for tortious interference with contract and conversion. The lawsuit alleged that Bull Run Corporation and the Company purchased the Tarzian shares with actual knowledge that Tarzian had a binding agreement to purchase the stock from the Estate. The lawsuit sought damages in an amount equal to the liquidation value of the interest in Tarzian that the stock represented, which Tarzian claimed to be as much as $75.0 million, as well as attorneys fees, expenses, and punitive damages. The lawsuit also sought an order requiring the Company and Bull Run Corporation to turn over the stock certificates to Tarzian and relinquish all claims to the stock. On May 27, 2005, the Court issued an Order administratively closing the case pending resolution of Tarzian s lawsuit against the Estate in Indiana federal court. On July 26, 2006, following the conclusion of the Indiana federal case, the parties filed a Stipulation of Dismissal with Prejudice in the Georgia federal case, ending the litigation between Tarzian, Bull Run Corporation, and the Company.

Related Party Transactions

Through a rights-sharing agreement with Host Communications, Inc. (Host), a wholly owned subsidiary of TCM, a related party, the Company participated jointly with Host in the marketing, selling and broadcasting of certain collegiate sporting events and in related programming, production and other associated activities related to the University of Kentucky. The initial agreement which commenced April 1, 2000 terminated April 15, 2005. As of December 31, 2005, Host owed $1.6 million to the Company, which was reported as a related party receivable. This amount was collected in full during the first quarter of 2006.

On October 12, 2004, the University of Kentucky jointly awarded a new sports marketing agreement to the Company and Host. The new agreement commenced on April 16, 2005 and has an initial term of seven years with the option to extend the license for three additional years. Aggregate license fees to be paid to the University of Kentucky over a full ten year term for the agreement will be approximately $80.5 million. The Company and Host will share equally the cost of the license fees. During the three months and six months ended June 30, 2006, the Company recognized losses under the sports marketing agreement of $135,000 and $71,000, respectively. The contract is recorded as a non-current related party investment of $3.4 million as of June 30, 2006 and $1.7 million as of December 31, 2005.

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations
Executive Overview

Introduction

The following analysis of the financial condition and results of operations of Gray Television, Inc. (the Company or Gray) should be read in conjunction with Gray s financial statements contained in this report and in Gray s annual report filed on Form 10-K for the year ended December 31, 2005.

Overview

Gray Television, Inc. is a television broadcast company headquartered in Atlanta, GA. Gray operates 36 television stations serving 30 markets. Each of the stations are affiliated with either CBS (17 stations), NBC (10 stations), ABC (8 stations), or Fox (1 station). In addition, Gray currently operates 13 digital multi-cast television channels which are currently affiliated with either UPN or Fox in certain of its existing markets.

The operating revenues of the Company s television stations are derived primarily from broadcast advertising revenues and, to a much lesser extent, from ancillary services such as production of commercials and tower rentals as well as compensation paid by the networks to the stations for network programming.

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

Most broadcast advertising contracts are short-term, and generally run only for a few weeks. Approximately 71% of the net revenues of the Company s television stations for the six months ended June 30, 2006, were generated from local advertising (including political advertising revenues), which is sold primarily by a station s sales staff directly to local accounts, and the remainder represented primarily by national advertising, which is sold by a station s national advertising sales representative. The stations generally pay commissions to advertising agencies on local, regional and national advertising and the stations also pay commissions to the national sales representative on national advertising.

Broadcast advertising revenues are generally highest in the second and fourth quarters each year, due in part to increases in consumer advertising in the spring and retail advertising in the period leading up to and including the holiday season. In addition, broadcast advertising revenues are generally higher during even numbered years due to spending by political candidates, which spending typically is heaviest during the fourth quarter. Consistent with this trend the Company has earned $6.5 million of political advertising revenue during the six months ended June 30, 2006.

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

Acquisition of WNDU-TV

On March 3, 2006, the Company acquired all of the outstanding capital stock of Michiana Telecasting Corporation, operator of WNDU-TV, from The University of Notre Dame. The total cost was $88.8 million, which included the contract price of $85.0 million, working capital adjustments of $3.4 million and transaction costs of $0.4 million. WNDU-TV serves the South Bend Elkhart, Indiana television market and is an NBC affiliate. In

January 2006, the Company borrowed $100.0 million under its senior credit facility. These funds were used to fund the acquisition of WNDU-TV and to reduce other portions of the Company s then outstanding revolving credit facility debt.

2005 Spinoff

On December 30, 2005, the Company completed the spinoff of all of the outstanding stock of Triple Crown Media, Inc. (TCM). Immediately prior to the spinoff, the Company contributed all of the membership interests in Gray Publishing, LLC which owned and operated the Company s Gray Publishing and GrayLink Wireless businesses and certain other assets, to TCM. The financial position and results of operations of the publishing and wireless businesses are reported in the Company s consolidated balance sheet and statement of operations as discontinued operations for the three and six months ended June 30, 2006.

Results of Operations

Revenues

Set forth below are the principal types of broadcast revenues earned by Gray for the periods indicated and the percentage contribution of each to Gray s total revenues (dollars in thousands):

	Three Months Ended June 30,				Six Months Ended June 30,			
	2006		2005		2006		2005	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total
Broadcasting net revenues:								
Local	$ 52,618	64.6%	$ 44,980	66.2%	$ 99,140	66.3%	$ 84,123	66.6%
National	21,382	26.3%	18,793	27.6%	38,584	25.8%	34,065	27.0%
Network compensation	360	0.4%	1,407	2.1%	581	0.4%	3,050	2.4%
Political	4,706	5.8%	687	1.0%	6,482	4.3%	980	0.8%
Production and other	2,325	2.9%	2,121	3.1%	4,839	3.2%	4,079	3.2%
Total	$ 81,391	100.0%	$ 67,988	100.0%	$ 149,626	100.0%	$ 126,297	100.0%

Three Months Ended June 30, 2006 Compared to Three Months Ended June 30, 2005

Total broadcast revenues increased $13.4 million, or 20%, to $81.4 million. The primary reason for this increase is due to the acquisition of the following television stations: WSAZ-TV, Charleston Huntington, WV on November 30, 2005 and WNDU-TV, South Bend, IN on March 3, 2006. In addition, since January 1, 2005, the Company has launched 13 digital second channels in its existing television markets. Collectively, the acquisitions and additional channels account for approximately $10.6 million, or 79% of the Company s overall increase in revenues. The added stations and channels contributed $6.6 million in local advertising revenues, $3.0 million in national advertising revenues, $83,000 in network compensation, $530,000 in political advertising revenues and $309,000 in production and other revenues.

For the stations and digital second channels continuously operated since January 1, 2005, local advertising revenues increased $1.0 million, or 2%, to $45.5 million due to increased demand for commercial time by local advertisers. For these previously existing stations, national revenue, excluding political advertising revenue, decreased $428,000, or 2% due to decreased demand for commercial time by national advertisers.

For all stations, political advertising revenues increased by $4.0 million to $4.7 million reflecting the cyclical influence of the 2006 election year; and network compensation revenue decreased by $1.0 million due to lower revenue specified in the network affiliation agreements.

Operating expenses. Operating expenses increased $9.4 million, or 19%, to $57.7 million.

Broadcasting expenses, before depreciation, amortization and loss on disposal of assets, increased $5.9 million, or 15%, to $45.5 million. Collectively for the stations acquired and the additional digital second channels added, as discussed above, broadcast expenses increased approximately $5.4 million in the three months ended June 30, 2006, which included increases of $3.3 million in payroll and employee benefit expenses and $2.1 million in operating expenses.

For the stations and second channels continuously operated since January 1, 2005, broadcast expenses increased approximately $569,000, or 1%, to $39.5 million. This increase in existing broadcast expenses was due to increases of $564,000 in non-payroll related expenses, primarily consisting of program costs.

Corporate and administrative expenses, before depreciation, amortization and loss on disposal of assets decreased $0.1 million, or 4%, to $2.9 million. Included in expenses recognized in the three months ended June 30, 2006 is $193,000 of non-cash expense for stock-based compensation recorded in connection with the Company s adoption on January 1, 2006 of Statement of Financial Accounting Standards No. 123(R), which relates to the new accounting rules for expensing stock based compensation. The amounts presented for the three months ended June 30, 2005 include $98,000 for non-cash stock based compensation related to restricted stock awards.

Depreciation expense increased $2.8 million, or 52%, to $8.3 million. The increase is attributable to the purchase of equipment for our existing operating locations as well as the acquisition of the television stations described above.

Amortization of intangible assets increased $500,000, or 238%, to $710,000. The increase in amortization expense was due to the addition of definite life intangible assets in connection with the acquisitions described above.

Interest expense. Interest expense increased $5.4 million, or 47%, to $16.7 million. This increase is primarily attributable to higher debt associated with the acquisitions described above and higher average interest rates in 2006. The combined average interest rates on the Company s senior credit facility and $9^1/4$% Notes, were 7.4% and 6.9% for the three months ended June 30, 2006 and June 30, 2005, respectively. The increase in interest rates was partially offset by the repurchase and extinguishment by the Company of $1.1 million of its $9^1/4$% Notes during the January 2006.

Income tax expense. An income tax expense of $2.8 million was recorded for the three months ended June 30, 2006 as compared to an income tax expense of $1.5 million for the three months ended June 30, 2005. The effective income tax rate was approximately 39% for the current and the prior year.

Six Months Ended June 30, 2006 Compared to Six Months Ended June 30, 2005

Total revenues increased $23.3 million, or 18%, to $149.6 million. The primary reason for this increase is due to the acquisition of the following television stations: KKCO-TV, Grand Junction, CO on January 31, 2005; WSWG-TV, Albany, GA on November 10, 2005; WSAZ-TV, Charleston Huntington, WV on November 30, 2005 and WNDU-TV, South Bend, IN on March 3, 2006. In addition, since January 1, 2005, the Company has launched 13 digital second channels in its existing television markets. Collectively, the acquisitions and additional channels account for approximately $18.2 million, or 78%, of the Company s overall increase in revenues. The added stations and channels contributed $11.4 million in local advertising revenues, $5.1 million in national advertising revenues, $161,000 in network compensation, $781,000 in political advertising revenues and $685,000 in production and other revenues.

For the stations and digital second channels continuously operated since January 1, 2005, local advertising revenues increased $3.6 million, or 4%, to $86.9 million due to increased demand for commercial time by local advertisers. For these previously existing stations, national revenue decreased $617,000 or 2% compared to the prior year due to decreased demand for commercial time by national advertisers.

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For all stations, political advertising revenues increased by $5.5 million to $6.5 million reflecting the start of the 2006 election year cycle and network compensation revenue decreased by $2.5 million due to lower revenue specified in the network affiliation agreements.

Operating expenses. Operating expenses increased $19.5 million, or 20%, to $114.9 million.

Broadcasting expenses, before depreciation, amortization and loss on disposal of assets, increased $12.3 million, or 16%, to $90.6 million. Collectively for the stations acquired and digital second channels added, as discussed above, broadcast expenses increased approximately $9.6 million in the six months ended June 30, 2006, which included increases of $5.9 million in payroll and employee benefit expenses and $3.8 million in operating expenses.

For the stations and second channels continuously operated since January 1, 2005, broadcast expenses increased approximately $2.7 million, or 3%, to $79.9 million. This increase in existing broadcast expense was due primarily to $1.4 million in routine increases in payroll and employee benefit expenses and $1.2 of increases in other operating expenses.

Corporate and administrative expenses, before depreciation, amortization and loss on disposal of assets increased $0.9 million, or 15%, to $6.7 million. Included in expenses recognized in the six months ended June 30, 2006 is $391,000 of non-cash expense for stock-based compensation. The amounts presented for the six months ended June 30, 2005 include $196,000 for non-cash stock based compensation related to restricted stock awards.

Depreciation expense increased $5.1 million, or 48%, to $16.0 million. The increase is attributable to the purchase of equipment for our existing operating locations as well as the acquisition of the television stations described above.

Amortization of intangible assets increased $885,000, or 212%, to $1.3 million. The increase in amortization expense was due to the addition of definite life intangible assets in connection with the acquisitions described above.

Interest expense. Interest expense increased $9.7 million, or 43%, to $32.1 million. This increase is primarily attributable to higher debt associated with the acquisitions described above and higher average interest rates in 2006. The combined average interest rates on the Company s senior credit facility and the Company s 9 1/4% Notes were 7.3% and 6.7% for the six months ended June 30, 2006 and June 30, 2005, respectively. The increase in interest rates was partially offset by the repurchase and extinguishment by the Company of $1.1 million of its 9 1/4% Notes during January 2006.

Loss on early extinguishment of debt. Gray reported a loss on early extinguishment of debt in the amount of $110,000 which related to the repurchase and extinguishment by Gray of $1.1 million of its 9 1/4% Notes.

Income tax expense. An income tax expense of $1.1 million was recorded for the six months ended June 30, 2006 as compared to an income tax expense of $1.6 million for the six months ended June 30, 2005. The effective income tax rate was approximately 39% for the current year and the prior year.

Liquidity and Capital Resources

General

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The following tables present data that Gray believes is helpful in evaluating its liquidity and capital resources (in thousands).

	Six Months Ended June 30, 2006	Six Months Ended June 30, 2005
Net cash provided by operating activities	$ 40,519	$ 21,699
Net cash used in investing activities	(103,610)	(31,075)
Net cash provided by (used in) financing activities	61,217	(34,987)
Decrease in cash and cash equivalents	$ (1,874)	$ (44,363)

	As of June 30, 2006	As of December 31, 2005
Cash and cash equivalents	$ 7,441	$ 9,315
Long-term debt including current portion	$ 858,343	$ 792,509
Preferred stock	$ 39,134	$ 39,090
Available credit under senior credit agreement	$ 96,000	$ 58,500

Gray and its subsidiaries file a consolidated federal income tax return and such state or local tax returns as are required. Although Gray expects to earn taxable operating income for the foreseeable future, it anticipates that through the use of its available loss carryforwards it will not pay significant amounts of federal or state income taxes in the next several years.

Management believes that current cash balances, cash flows from operations and available funds under its senior credit facility will be adequate to provide for Gray s capital expenditures, debt service, cash dividends and working capital requirements for the foreseeable future.

Management does not believe that inflation in past years has had a significant impact on Gray s results of operations nor is inflation expected to have a significant effect upon its business in the near future.

Net cash provided by operating activities increased $18.8 million reflecting the impact of the station acquisitions described above. Cash provided by operating activities also increased due to increases in current liability accounts.

Net cash used in investing activities increased $72.5 million. The increase was largely due to the acquisition of television businesses, primarily WNDU-TV on March 3, 2006, representing a use of cash totaling $84.9 million. The Company expended approximately $13.9 million in cash for the acquisition of KKCO-TV during the first quarter of the prior year.

Net cash provided by (used in) financing activities increased $96.2 million. During the six months ended June 30, 2006, the Company borrowed $100.0 million under its senior credit facility primarily to finance the acquisition of WNDU-TV, described above. Gray also repaid $31.3 million outstanding under the revolving credit facility component of its senior credit facility, repaid $1.8 million of other long-term debt and repurchased $1.1 million of its $9^1/4$% Notes. During the six months ended June 30, 2006, the Company repurchased 4,100 shares of its common stock for $32,000. In the six months ended June 30, 2005 the Company repurchased 354,900 shares of common stock for $5.1 million, and 12,800 shares of class A common stock for $172,000 million. Dividends paid decreased $5.9 million due to the payment in January 2005 of a special dividend that was declared in the fourth quarter of 2004.

Capital Expenditures

The Company s capital expenditure activity is segregated into expenditures for high definition television (HDTV) and expenditures for other than high definition television (Non HDTV). This capital expenditure activity is set forth below for the six months ended June 30, 2006 and 2005 (in thousands):

	Six Months Ended June 30, 2006		
	Non HDTV	HDTV	Total
Capital expenditure payments made during the period	$11,599	$2,831	$14,430

	Six Months Ended June 30, 2005		
	Non HDTV	HDTV	Total
Capital expenditure payments made during the period	$12,096	$4,999	$17,095

Related Party Transactions

Through a rights-sharing agreement with Host, a wholly owned subsidiary of TCM, a related party, the Company participated jointly with Host in the marketing, selling and broadcasting of certain collegiate sporting events and in related programming, production and other associated activities related to the University of Kentucky. The initial agreement which commenced April 1, 2000 terminated April 15, 2005. As of December 31, 2005, Host owed $1.6 million to the Company, which was reported as a related party receivable. This amount was collected in full during the six months ended June 30, 2006.

On October 12, 2004, the University of Kentucky jointly awarded a new sports marketing agreement to the Company and Host. The new agreement commenced on April 16, 2005 and has an initial term of seven years with the option to extend the license for three additional years. Aggregate license fees to be paid to the University of Kentucky over a full ten year term for the agreement will be approximately $80.5 million. The Company and Host will share equally the cost of the license fees. During the three months and six months ended June 30, 2006, the Company recognized losses under the sports marketing agreement of $135,000 and $71,000, respectively. The contract is recorded as a non-current related party investment of $3.4 million as of June 30, 2006 and $1.7 million as of December 31, 2005.

Stock-based Compensation

Prior to January 1, 2006, we accounted for stock-based awards under the intrinsic value method, which followed the recognition and measurement principles of APB Opinion No. 25, *Accounting for Stock issued to employees,* and related interpretations (APB 25). The intrinsic value method of accounting resulted in compensation expense for restricted stock at fair value on date of grant based on the number of shares granted and the quoted price for our common stock. Because we granted our stock options at the quoted market price, no compensation expense had been recognized for our stock options under the intrinsic value method prior to the adoption of SFAS 123(R). Compensation expense has been recognized for shares purchased at a discount under the provision of our Employee Stock Purchase Plan to the extent of the discount.

As of January 1, 2006, we have adopted SFAS 123(R) using the modified prospective method, which requires Gray to measure compensation cost for all outstanding unvested share-based awards at fair value on the date of grant and recognize compensation cost over the service period for awards expected to vest. The fair value of restricted stock is determined based on the number of shares granted and the quoted market price of our common stock. The value of share discounts related to our Employee Stock Purchase Plan will continue to be expensed. The fair value of our stock options is determined using the Black-Scholes valuation model. Fair value calculations under the Black-Scholes model include several assumptions, including: risk free interest rate; dividend yield; volatility of market price; and weighted average expected life of the options. The methods and assumptions used by the Company are consistent with our valuation techniques previously utilized for stock options in our footnote disclosures under SFAS 123. Under SFAS 123(R) the fair value of stock options is recognized as expense over the service period, net of estimated forfeitures. The estimation of stock awards that will ultimately vest requires

judgment, and to the extent actual results differ from our estimates, such amounts will be recorded as an adjustment in the period estimates are revised. We consider many factors when estimating expected forfeitures, including types of awards, employee class, and historical experience. Actual results may differ substantially from these estimates. The recognition of stock-based compensation expense results in a deferred tax benefit for the temporary difference associated with the future tax deductions to be realized when stock options are exercised. SFAS 123(R) amends Statement of Financial Accounting Standards No. 95, Statement of Cash Flows and requires stock option exercises resulting in realizable tax benefits related to excess stock-based compensation deductions be prospectively presented in the statement of cash flows as financing cash inflows. No stock options were exercised in the six months ended June 30, 2006.

The adoption of SFAS 123(R) resulted in an additional stock-based compensation expense of $72,000 and $148,000 recognized in the three and six months ended June 30, 2006, respectively.

On December 30, 2005, the Company completed the spinoff of TCM. As a result of the change in the underlying value of the Company s common stock, on January 3, 2006 the Company adjusted the exercise price and corresponding number of options in its incentive plans. The adjustment affected all of the employees holding the Company s stock options. All of the other terms and conditions of the options remained unchanged. The fair market value of the options outstanding prior to the adjustment was equal to the fair market value of the outstanding options after the adjustment. Therefore the adjustment did not result in an accounting charge for the Company.

As of June 30, 2006, there was $1.2 million of total unrecognized compensation cost related to all nonvested share based compensation arrangements. The cost is expected to be recognized over a weighted average period of 1.3 years.

Other

During the six months ended June 30, 2006, Gray contributed approximately $1.5 million to its pension plans. During the remainder of 2006, Gray expects to contribute an additional $2.1 million to its pension plans.

Critical Accounting Policies

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make judgments and estimations that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. Gray considers its accounting policies relating to intangible assets and income taxes to be critical policies that require judgments or estimations in their application where variances in those judgments or estimations could make a significant difference to future reported results. These critical accounting policies and estimates are more fully disclosed in Gray s Annual Report on Form 10-K for the year ended December 31, 2005.

Cautionary Note Regarding Forward-Looking Statements

This quarterly report on Form 10-Q contains forward-looking statements. When used in this report, the words believes, expects, anticipates, should , estimates and similar words and expressions are generally intended to ider forward-looking statements, but some of those statements may use other phrasing. Statements that describe Gray s future strategic plans, goals or objectives are also forward-looking statements. Readers of this report are cautioned that any forward-looking statements, including those regarding the intent, belief or current expectations of Gray or management, are not guarantees of future performance, results or events and involve risks and uncertainties, and that actual results and events may differ materially from those in the forward-looking statements as a result of various factors including, but not limited to, (i) general economic conditions in the markets in which Gray operates, (ii) competitive pressures in the markets in which Gray operates, (iii) the effect of future legislation or regulatory changes on Gray s operations, (iv) certain other risks relating to our business, including, our dependence on advertising revenues, our need to acquire non-network television programming, the impact of a loss of any of our FCC broadcast licenses, increased competition and capital costs relating to digital advanced television, pending litigation and our significant level of intangible assets, (v) our high debt levels and (vi) other factors described from time to time in our SEC filings. The forward-looking statements included in this report are

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made only as of June 30, 2006. Gray disclaims any obligation to update such forward-looking statements to reflect subsequent events or circumstances, except as required by law.

Item 3. Quantitative and Qualitative Disclosure About Market Risk

Gray believes that the market risk of its financial instruments as of June 30, 2006 has not materially changed since December 31, 2005. The market risk profile on December 31, 2005 is disclosed in Gray s Annual Report on Form 10-K for the year ended December 31, 2005.

Item 4. Controls and Procedures

As of the end of the period covered by this quarterly report on Form 10-Q, an evaluation was carried out under the supervision and with the participation of management, including the Chief Executive Officer (CEO) and the Chief Financial Officer (CFO), of the effectiveness of the Company s disclosure controls and procedures. Based on that evaluation, the CEO and the CFO have concluded that Gray s disclosure controls and procedures are effective to ensure that information required to be disclosed by Gray in reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, and to ensure that such information is accumulated and communicated to Gray s management, including the CEO and CFO, as appropriate to allow timely decisions regarding required disclosures. There were no changes in Gray s internal control over financial reporting during the period covered by this Quarterly Report on Form 10-Q identified in connection with this evaluation that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

The information contained in Note H Commitments and Contingencies to Gray s unaudited Condensed Consolidated Financial Statements filed as part of this quarterly report on Form 10-Q is incorporated herein by reference.

Item 1A. Risk Factors

Please refer to Part I, Item 1A in the Company s annual report on Form 10-K for the year ended December 31, 2005 for a complete description of the Company s risk factors. The information presented below updates, and should be read in conjunction with, the risk factors and information disclosed in our annual report on Form 10-K for the year ended December 31, 2005:

We may be required to take an impairment charge on our goodwill and FCC licenses, which may have a material effect on the value of our total assets.

As of June 30, 2006, the net book value of our FCC licenses was $1.1 billion and the net book value of our goodwill was $270.0 million in comparison to total assets of $1.6 billion. Not less than annually, we are required to evaluate our goodwill and FCC licenses to determine if the estimated fair value of these intangible assets is less than book value. If the estimated fair value of these intangible assets is less than book value, we will be required to record a non-cash expense to write down the book value of the intangible asset to the estimated fair value. We cannot make any assurances that any required impairment charges will not have a material effect on our total assets.

Our inability to integrate acquisitions successfully would adversely affect us.

We have acquired 34 television stations since January 1, 1994 and in the future we may make additional acquisitions. In order to integrate successfully the businesses we acquire we will need to coordinate the management and administrative functions and sales, marketing and development efforts of each company. Combining companies presents a number of challenges, including integrating the management of companies that

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may have different approaches to sales and service, and the integration of a number of geographically separated facilities. In addition, integrating acquisitions requires substantial management time and attention and may distract management from our day-to-day business. If we cannot successfully integrate the businesses we have acquired and any future acquisitions, our business and results of operations could be adversely affected.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Issuer Purchases of Equity Securities

The following tables provide information about Gray s repurchase of its common stock (ticker: GTN) and its class A common stock (ticker: GTN.A) during the quarter ended June 30, 2006.

Issuer Purchases of Common Stock and Class A Common Stock

Period	NYSE Ticker Symbol	Total Number of Shares Purchased	Average Price Paid per Share(1)	Total Number of Shares Purchased as Part of Publicly Announced Plans	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs(2)
April 1, 2006 through April 30, 2006:	GTN	4,100	$ 7.82	4,100	
	GTN.A		$		1,708,300
May 1, 2006 through May 31, 2006:	GTN		$		
	GTN.A		$		1,708,300
June 1, 2006 through June 30, 2006:	GTN		$		
	GTN.A		$		1,708,300
Total		4,100	$ 7.82	4,100	1,708,300

(1) Amount excludes standard brokerage commissions.

(2) On November 3, 2004, the Company s Board of Directors increased, from 2 million to 4

million, the aggregate number of shares of its Common Stock or Class A Common Stock authorized for repurchase. On March 3, 2004, Gray s Board of Directors had previously authorized the repurchase, from time to time, of up to an aggregate of 2 million shares of the Company s Common Stock or Class A Common Stock. As of June 30, 2006, 1,708,300 shares of the Company s Common Stock and Class A Common Stock are available for repurchase under the increased limit of 4 million shares. There is no expiration date for this repurchase plan.

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Item 4. Submission of Matters to a Vote of Security Holders

On May 10, 2006, at the 2006 Annual Meeting of Shareholders of the Company, the Company s shareholders voted on the election of the following nominees for director and votes were cast as indicated. Each nominee was elected as a director of the Company.

(a) The following directors were elected:

	Common Stock Votes		Class A Votes	
Nominee	**For**	**Withheld**	**For**	**Withheld**
Richard L. Boger	30,607,319	4,803,816	28,221,110	14,750
Ray M. Deaver	14,830,955	20,580,180	27,480,530	395,330
T. L. Elder	30,803,280	4,607,855	28,221,110	14,750
Hilton H. Howell, Jr.	30,333,677	5,077,458	28,221,110	14,750
William E. Mayher, III	28,526,612	6,884,523	28,221,110	14,750
Zell B. Miller	30,754,926	4,656,209	28,234,310	1,550
Howell W. Newton	30,386,660	5,024,475	28,114,510	121,350
Hugh E. Norton	27,884,041	7,527,094	28,114,510	121,350
Robert S. Prather, Jr.	28,791,344	6,619,791	28,220,900	14,960
Harriett J. Robinson	28,288,472	7,122,663	28,114,300	121,560
J. Mack Robinson	30,300,731	5,110,404	28,114,300	121,560

Item 6. Exhibits

Exhibit 31.1 Rule 13(a) 14(a) Certificate of Chief Executive Officer

Exhibit 31.2 Rule 13(a) 14(a) Certificate of Chief Financial Officer

Exhibit 32.1 Section 1350 Certificate of Chief Executive Officer

Exhibit 32.2 Section 1350 Certificate of Chief Financial Officer

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

GRAY TELEVISION, INC.
(Registrant)

Date: August 9, 2006 By: /s/ James C. Ryan

James C. Ryan,
Senior Vice President and Chief Financial Officer

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, international and other regulatory guidance and proposals for reform. Some of these reforms are already effective while others are still to be implemented. These reforms may cause such "benchmarks" to perform differently than in the past, or to disappear entirely, or have other consequences which cannot be predicted. Any such consequence could have a material adverse effect on your notes.

Any of the international, national or other proposals for reform or the general increased regulatory scrutiny of "benchmarks" could increase the costs and risks of administering or otherwise participating in the setting of a "benchmark" and complying with any such regulations or requirements. Such factors may have the effect of discouraging market participants from continuing to administer or contribute to certain "benchmarks", trigger changes in the rules or methodologies used in certain "benchmarks" or lead to the disappearance of certain "benchmarks". The disappearance of a "benchmark" or changes in the manner of administration of a "benchmark" could result in discretionary valuation by the index sponsor (including any index calculation agent acting on the index sponsor's behalf) or the note calculation agent or other consequence in relation to your notes. Any such consequence could have a material adverse effect on the value of and return on your notes.

The Historical Levels of the Notional Interest Rate Are Not an Indication of the Future Levels of the Notional Interest Rate

In the past, the level of the notional interest rate (3-month USD LIBOR) has experienced significant fluctuations. You should note that historical levels, fluctuations and trends of the notional interest rate are not necessarily indicative of future levels. Any historical upward or downward trend in the notional interest rate is not an indication that the notional interest rate is more or less likely to increase or decrease at any time, and you should not take the historical levels of the notional interest rate as an indication of its future performance.

The Index

The index and eligible underlying asset descriptions below supplement, and should be read together with, the descriptions in the accompanying index supplement. For more details about each eligible underlying asset, see "The Eligible Underlying Assets" in the accompanying index supplement.

General Overview

The GS Momentum Builder® Multi-Asset 5S ER Index (the index) measures the extent to which the performance of the exchange-traded funds and a money market position (together with the ETFs, the underlying assets) included in the index outperform the sum of the return on the notional interest rate, which is a rate equal to 3-month USD LIBOR, plus 0.65% per annum (accruing daily). The money market position reflects the notional returns accruing to a hypothetical investor from an investment in a money market account denominated in U.S. dollars that accrues interest at the notional interest rate. The index rebalances on each index business day from among 15 underlying assets that have been categorized in the following asset classes: broad-based equities; fixed income; emerging markets; alternatives; commodities; inflation; and cash equivalent. The index attempts to track the positive price momentum in the underlying assets, subject to limitations on volatility and a minimum and maximum weight for each underlying asset and each asset class, each as described below.

On each index business day (in the following context, a base index rebalancing day), the index is rebalanced. For each day in the weight averaging period related to that base index rebalancing day, the portfolio of underlying assets that would have provided the highest historical return during three return look-back periods (nine months, six months and three months) is calculated. Each portfolio is subject to a limit of 5% on the degree of variation in the daily closing prices or closing level, as applicable, of the aggregate of such underlying assets (a measure known as "realized volatility") over the related realized volatility look-back period (the prior six months, three months and one month for the nine-month, six-month and three-month return look-back periods, respectively) and subject to a minimum and maximum weight for each underlying asset and each asset class. This results in three potential portfolios of underlying assets (one for each return look-back period) for each day in that weight averaging period. The weight of each underlying asset for a given day in a weight averaging period (the "target weight") will equal the average of the weights of such underlying asset in the three potential portfolios while the weight of each underlying asset for the base index rebalancing will equal the average of such target weights. The weight averaging period for any base index rebalancing day will be the period from (but excluding) the 22nd index business day on which no index market disruption event occurs or is continuing with respect to any underlying asset prior to such day to (and including) such day. As a result of this step, the index may include as few as four eligible underlying assets (as few as three eligible ETFs) and may not include some of the underlying assets or asset classes during the entire term of the notes.

After a base index rebalancing, if on such index business day (in the following context, a daily total return index rebalancing day) the realized volatility of the index underlying assets exceeds the volatility cap of 6% for the applicable volatility cap period (the prior one month), the index will be rebalanced again in order to reduce such realized volatility to 6% by ratably reallocating a portion of the exposure to the index ETFs to the money market position. As a result of this step, the index may not include any ETFs and may allocate its entire exposure to the money market position, which will always be less than the sum of the return on the notional interest rate plus 0.65% per annum (accruing daily). Historically, a significant portion of the index exposure has been to the money market position.

The index reflects the return of the index underlying assets less the sum of the return on the notional interest rate plus 0.65% per annum (accruing daily). Any cash dividend paid on an index ETF is deemed to be reinvested in such index ETF and subject to subsequent changes in the value of the index ETF. In addition, any interest accrued on the money market position is similarly deemed to be reinvested on a daily basis in such money market position and subject to subsequent changes in the notional interest rate. For further information regarding how the index value is calculated see “— How is the index value calculated on any day?” below.

The notional interest rate is a rate equal to 3-month USD LIBOR, which generally will be the offered rate for 3-month deposits in U.S. dollars, as that rate appears on the Reuters screen 3750 page as of 11:00 a.m., London time, as observed two London business days prior to the relevant notional interest rate reset date (such day, a “USD LIBOR interest determination date”). A notional interest rate reset date will occur daily, or, if such date is not an index business day, on the index business day immediately following such date on which the notional interest rate is reset. A London business day is a day on which commercial banks and foreign currency markets settle payments and are open for general business in London.

If the index committee determines that 3-month USD LIBOR has been discontinued, then the index committee shall replace 3-month USD LIBOR with a substitute or successor rate that it has determined in its sole discretion is most comparable to 3-month USD LIBOR, provided that if the index committee determines there is an industry accepted successor rate, then the index committee shall use such successor rate. If the index committee has determined a substitute or successor rate in accordance with the foregoing, the index committee in its sole discretion may determine an alternative to London business day, USD LIBOR interest determination date and notional interest rate reset date to be used and any other relevant methodology for calculating such substitute or successor rate, including any adjustment factor needed to make such substitute or successor rate comparable to 3-month USD LIBOR, in a manner that is consistent with industry-accepted practices for such substitute or successor rate. Unless the index committee replaces 3-month USD LIBOR with a substitute or successor rate as so provided, the following will apply:

If the rate described above does not so appear on the Reuters screen 3750 page, then 3-month USD LIBOR will be determined on the basis of the rates at which three-month deposits in U.S. dollars are offered by four major banks in the London interbank market selected by the index calculation agent at approximately 12:00 p.m., London time, on the relevant USD LIBOR interest determination date, to prime banks in the London interbank market, beginning on the relevant notional interest rate reset date, and in a representative amount. The index calculation agent will request the principal London office of each of these major banks to provide a quotation of its rate. If at least two quotations are provided, 3-month USD LIBOR for the relevant notional interest rate reset date will be the arithmetic mean of the quotations. If fewer than two of the requested quotations described above are provided, 3-month USD LIBOR for the relevant notional interest rate reset date will be the arithmetic mean of the rates quoted by major banks in New York City, selected by the index calculation agent, at approximately 11:00 a.m., New York City time, on the relevant notional interest rate reset date, for loans in U.S. dollars to leading European banks for a period of three months, beginning on the relevant notional interest rate reset date, and in a representative amount.

If no quotation is provided as described in the preceding paragraph, then the index calculation agent, after consulting such sources as it deems comparable to any of the foregoing quotations or display page, or any such source as it deems reasonable from which to estimate 3-month USD LIBOR or any of the foregoing lending rates, shall determine 3-month USD LIBOR for that notional interest rate reset date in its sole discretion.

The value of the index is calculated in U.S. dollars on each index business day by reference to the performance of the total return index value net of the sum of the return on the notional interest rate in effect at that time plus 0.65% per annum (accruing daily). The total return index value on each index business day is calculated by reference to the weighted performance of:

- the base index, which is the weighted combination of underlying assets that comprise the index at the applicable time as a result of the most recent daily base index rebalancing; and
- any additional exposure to the money market position resulting from any daily total return index rebalancing.

The underlying assets that comprise the base index as the result of the most recent daily base index rebalancing may include a combination of ETFs and the money market position, or solely ETFs. A daily total return index rebalancing will occur effective after the close of business on any daily total return index rebalancing day if the realized volatility of the base index exceeds the volatility cap of 6% for the volatility cap period applicable to such index business day. As a result of a daily total return index rebalancing, the index will have exposure to the money market position even if the base index has no such exposure resulting from its most recent daily base index rebalancing.

For the purpose of the index:

- an “eligible underlying asset” is one of the ETFs or the money market position that is eligible for inclusion in the index on an index business day;
-

an “eligible ETF” is one of the ETFs that is eligible for inclusion in the index on an index business day (when we refer to an “ETF” we mean an exchange traded fund, which for purposes of this pricing supplement includes the following exchange traded products: SPDR® S&P 500® ETF Trust and SPDR® Gold Trust;

- an “index underlying asset” is an eligible underlying asset with a non-zero weighting on any index business day;
- an “index ETF” is an ETF that is an eligible ETF with a non-zero weighting on any index business day; and
- an “index business day” is a day on which the New York Stock Exchange is open for its regular trading session.

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How frequently is the index rebalanced?

On each daily base index rebalancing day, the index rebalances from among the 15 eligible underlying assets by calculating, for each day in the weight averaging period related to that base index rebalancing day, the portfolio of underlying assets that would have provided the highest historical return during three return look-back periods (nine months, six months and three months). Each portfolio is subject to a limit of 5% on the degree of variation in the daily closing prices or closing level, as applicable, of the aggregate of such underlying assets (a measure known as "realized volatility") over the related realized volatility look-back period (the prior six months, three months and one month for the nine-month, six-month and three-month return look-back periods, respectively) and subject to a minimum and maximum weight for each underlying asset and each asset class. This results in three potential portfolios of underlying assets (one for each return look-back period) for each day in that weight averaging period. The weight of each underlying asset for a given day in a weight averaging period will equal the average of the weights of such underlying asset in the three potential portfolios while the weight of each underlying asset for the daily base index rebalancing will equal the average of such target weights. This daily rebalancing is referred to as the base index rebalancing and the resulting portfolio of index underlying assets comprise the base index effective after the close of business on the day such daily rebalancing occurs. The weight averaging period for any base index rebalancing day will be the period from (but excluding) the 22nd index business day on which no index market disruption event occurs or is continuing with respect to any underlying asset prior to such day to (and including) such day. Certain aspects of index business day and base index rebalancing day adjustments are described under "— Could index market disruption events or corporate events impact the calculation of the index or a daily base index rebalancing or a daily total return index rebalancing by the index calculation agent?" below.

After a base index rebalancing, if, on such index business day, the realized volatility of the base index exceeds the volatility cap of 6% for the applicable volatility cap period (the prior one month), the index will be rebalanced again in order to reduce such realized volatility to 6% by ratably reallocating a portion of the exposure to the eligible ETFs to the money market position. This type of rebalancing has the effect of reducing the exposure of the index to the performance of the eligible ETFs. This daily rebalancing is referred to as the daily total return index rebalancing.

For a discussion of how the look-back periods for rebalancing are determined, see "— What is realized volatility and how are the weights of the underlying assets influenced by it?" and "— How do the weights of the index underlying assets change as a result of a daily total return index rebalancing?", respectively, below.

How is the index value calculated on any day?

The value of the index was set to 100 on the index base date, July 31, 2015. On each index business day, the value of the index changes by reference to the performance of the total return index value net of the sum of the return on the notional interest rate in effect at that time plus 0.65% per annum (accruing daily). The total return index value on each index business day is calculated by reference to the weighted performance of:

- the base index, which is the weighted combination of underlying assets that comprise the index at the applicable time as a result of the most recent daily base index rebalancing (whether partially or fully implemented); and
- any additional exposure to the money market position resulting from any daily total return index rebalancing.

The underlying assets that comprise the base index as the result of the most recent daily base index rebalancing may include a combination of ETFs and the money market position, or solely ETFs. A daily total return index rebalancing will occur effective after the close of business on any daily total return index rebalancing day if the realized volatility of the base index exceeds the volatility cap of 6% for the volatility cap period applicable to such daily total return index rebalancing day. As a result of a daily total return index rebalancing, the index will have exposure to the money market position even if the base index has no such exposure resulting from its most recent daily base index rebalancing.

On any index business day, the index value will equal (a) the index value on the immediately preceding notional interest rate reset date multiplied by (b) the return on the total return index on such index business day reduced by the sum of (i) the prorated notional interest rate (compounded daily) and (ii) the prorated 0.65% per annum (accruing daily), with such prorated 0.65% per annum applied after such return on the total return index is reduced by such prorated notional interest rate. The return on the total return index for any such index business day will equal the quotient of the total return index value as of such index business day divided by the total return index value as of the immediately preceding notional interest rate reset date. The prorated notional interest rate and prorated 0.65% per annum are each calculated on an actual/360 day count basis from but excluding the immediately preceding notional interest rate reset date. The notional interest rate is reset on daily notional interest rate reset dates, or, if such date is not an index business day, on the index business day immediately following such date. Regardless of whether the index underlying assets include the money market position on a base index rebalancing day, if the index has ratably rebalanced into the money market position as a result of the daily volatility control feature, then the index also will include the value of the money market position.

The value of any index ETF is equal to the result of multiplying the weight applicable to such index ETF and the adjusted level of such index ETF. The adjusted level of such index ETF reflects any price change in such index ETF as well as any cash dividend paid on such index ETF. Any cash dividend paid on an index ETF is deemed to be reinvested in such index ETF and subject to subsequent changes in the value of the index ETF.

The value of the money market position reflects, on any day, the amount of interest accrued at the notional interest rate on an investment in a notional U.S. dollar denominated money market account. The money market position will have a positive notional return if the notional interest rate is positive. Any interest accrued on the money market position is deemed to be reinvested on a daily basis in such money market position and subject to subsequent changes in the notional interest rate.

The contribution of any index underlying asset to the performance of the index will depend on its weight and performance. The effects of potential adjustment events are described under "— Could index market disruption events or corporate events impact the calculation of the index or a daily base index rebalancing or a daily total return index rebalancing by the index calculation agent?" below.

How does the index attempt to provide exposure to price momentum?

The index uses the historical return performance of the eligible underlying assets to determine the composition of the index on a base index rebalancing day. The nine-month, six-month and three-month historical returns are used as an indication of price momentum. Although the index methodology seeks to select index underlying assets with the highest nine-month, six-month and three-month historical return reflecting price momentum, the underlying asset maximum weights, the asset class maximum weights, the 5% volatility target, the averaging of eligible underlying asset weights in the realized volatility look-back periods, the further averaging of such target weights during the applicable weight averaging period and the daily volatility control, as well as how the eligible underlying assets correlate, may limit the exposure to those underlying assets with the highest nine-month, six-month and three-month historical returns.

The nine-month, six-month and three-month historical return for an eligible underlying asset is calculated to include, with respect to the ETFs, price changes and any cash dividends paid during the relevant nine-month, six-month and three-month period being evaluated.

Who calculates and oversees the index?

The index is calculated using a methodology developed by GS&Co., the index sponsor. The complete index methodology, which may be amended from time to time, is available at solactive.com/indices/. We are not incorporating by reference this website or any material it includes into this pricing supplement.

An index committee is responsible for overseeing the index and its methodology. The index committee may exercise discretion in the case of any changes to the eligible underlying assets and any index market disruption event or potential adjustment event that occurs in relation to one or more eligible underlying assets. The index committee is comprised of employees of The Goldman Sachs Group, Inc. or one or more of its affiliates. At least forty percent of the committee is comprised of employees of control side functions, with at least two members from the compliance department and two members from the legal department. Other members consist of employees of The Goldman Sachs Group, Inc.'s securities division, which includes employees who regularly trade the eligible ETFs. If the index committee exercises any discretion related to the index, it must be approved by 100% of the control side employees present at the relevant index committee meeting.

Changes to the index methodology made by the index committee will be publicly announced on the index calculation agent's website at least 60 index business days prior to their effective date. Adjustments made by the index calculation agent in response to index market disruption events and potential adjustment events will be publicly announced as promptly as is reasonably practicable on the index calculation agent's website.

The index committee may exercise limited discretion with respect to the index, including in the situations described below under "— Can the eligible underlying assets change?". Any such changes or actions are publicly announced as promptly as is reasonably practicable and normally at least five index business days prior to their effective date.

The index sponsor has retained Solactive AG to serve as index calculation agent. The index calculation agent calculates the value of the index and implements the methodology determined by the index committee. The index sponsor can replace the index calculation agent at any time, or the index calculation agent can resign on 60 days notice to the index sponsor. In the event the index sponsor appoints a replacement index calculation agent, a public announcement will be made via press release.

The index calculation agent is responsible for the day to day implementation of the methodology of the index and for its calculation. The index calculation agent calculates and publishes the value of the index every 15 seconds on each index business day and publishes it on the Bloomberg page GSMBMA5S Index and Reuters page .GSMBMA5S. The index calculation agent may from time to time consult the index committee on matters of interpretation with respect to the methodology.

What underlying assets are included in the universe of potential index underlying assets?

As of the date of this pricing supplement, there are 14 eligible ETFs included in the 15 eligible underlying assets. These eligible underlying assets track assets that have been categorized in the following asset classes: broad-based equities; fixed income; emerging markets; alternatives; commodities; inflation; and cash equivalent. The 14 ETFs are as follows:

- SPDR® S&P 500® ETF Trust (SPY) — SPY seeks investment results that correspond generally to the price and yield performance, before fees and expenses, of publicly traded securities in leading industries of the U.S. economy, as measured by the S&P 500® Index. SPY has been categorized in the equities asset class.
- iShares® MSCI EAFE ETF (EFA) — EFA seeks investment results that correspond generally to the price and yield performance, before fees and expenses, of publicly traded securities in the European, Australasian and Far Eastern markets, as measured by the MSCI EAFE® Index. EFA has been categorized in the equities asset class.
- iShares® MSCI Japan ETF (EWJ) — EWJ seeks investment results that correspond generally to the price and yield performance, before fees and expenses, of publicly traded securities in the Japanese market as measured the MSCI Japan Index. EWJ has been categorized in the equities asset class.
- iShares® 20+ Year Treasury Bond ETF (TLT) — TLT seeks investment results that correspond generally to the price and yield performance, before fees and expenses, of public obligations of the U.S. Treasury that have a minimum term to maturity of greater than 20 years, as measured by the ICE U.S. Treasury 20+ Year Bond Index. TLT has been categorized in the fixed income asset class.
- iShares® iBoxx $ Investment Grade Corporate Bond ETF (LQD) — LQD seeks investment results that correspond generally to the price and yield performance, before fees and expenses, of U.S. dollar-denominated, investment grade corporate bonds, as measured by the Markit iBoxx® USD Liquid Investment Grade Index. LQD has been categorized in the fixed income asset class.
- iShares® iBoxx $ High Yield Corporate Bond ETF (HYG) — HYG seeks investment results that correspond generally to the price and yield performance, before fees and expenses, of the U.S. dollar-denominated liquid high yield corporate bond market, as measured by the Markit iBoxx® USD Liquid High Yield Index. HYG has been categorized in the fixed income asset class.
- iShares® 7-10 Year Treasury Bond ETF (IEF) — IEF seeks investment results that correspond generally to the price and yield performance, before fees and expenses, of public obligations of the U.S. Treasury that have a minimum term to maturity of greater than 7 years and less than or equal to 10 years, as measured by the ICE U.S. Treasury 7-10 Year Bond Index. IEF has been categorized in the fixed income asset class.
- iShares® MSCI Emerging Markets ETF (EEM) — EEM seeks investment results that correspond generally to the price and yield performance, before fees and expenses, of publicly traded securities in emerging markets, as measured by the MSCI Emerging Markets Index. EEM has been categorized in the emerging markets asset class.
- iShares® U.S. Real Estate ETF (IYR) — IYR seeks investment results that correspond generally to the price and yield performance, before fees and expenses, of the real estate sector of the U.S. equity market, as represented by the Dow Jones U.S. Real Estate Index. The Dow Jones U.S. Real Estate Index is designed to represent Real Estate Investment Trusts (REITs) and other companies that invest directly or indirectly in real estate through development, management or ownership, including property agencies. IYR has been categorized in the alternatives asset class.

iShares® Preferred and Income Securities ETF (PFF) — PFF seeks investment results that correspond generally to the price and yield performance, before fees and expenses, of a select group of exchange-listed, U.S. dollar denominated preferred securities, hybrid securities and convertible preferred securities listed on the New York Stock Exchange or NASDAQ Capital Market, as represented by the ICE Exchange-Listed Preferred & Hybrid Securities Transition Index, which allocates exposure between the ICE US Listed Preferred Securities Index and the ICE Exchange-Listed Preferred & Hybrid Securities Index (the “new index”). PFF has been categorized in the alternatives

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asset class. During the period from February 1, 2019 to October 31, 2019, the ETF will track the ICE Exchange-Listed Preferred & Hybrid Securities Transition Index. On and after November 1, 2019, the ETF is expected to track in full the new index. Prior to February 1, 2019, the ETF tracked the S&P U.S. Preferred Stock Index™.

- iShares® Nasdaq Biotechnology ETF (IBB) — IBB seeks investment results that correspond generally to the price and yield performance, before fees and expenses, of securities listed on The NASDAQ Stock Market that are classified as either biotechnology or pharmaceutical according to the Industry Classification Benchmark, as measured by the NASDAQ Biotechnology Index. IBB has been categorized in the alternatives asset class.
- SPDR® S&P® Oil & Gas Exploration & Production ETF (XOP) — XOP seeks investment results that correspond generally to the total return performance, before fees and expenses, of securities listed in the S&P Total Market Index that are classified under the Global Industry Classification Standard in the oil and gas exploration & production industry group, as measured by the S&P Oil & Gas Exploration & Production Select Industry Index. XOP has been categorized in the commodities asset class.
- SPDR® Gold Trust (GLD) — GLD seeks investment results that correspond generally to the price and yield performance, before fees and expenses, of gold bullion held by the SPDR® Gold Trust. GLD has been categorized in the commodities asset class.
- iShares® TIPS Bond ETF (TIP) — TIP seeks investment results that correspond generally to the price and yield performance, before fees and expenses, of inflation-protected public obligations of the U.S. Treasury that have at least one year remaining to maturity, are rated investment grade and have $250 million or more of outstanding face value, as measured by the Bloomberg Barclays U.S. Treasury Inflation Protected Securities (TIPS) Index (Series-L). TIP has been categorized in the short-term U.S. treasury bills and inflation asset class.

In addition to the above referenced ETFs, the eligible underlying assets also include the money market position. The money market position is included in the cash equivalent asset class and reflects the notional returns accruing to a hypothetical investor from an investment in a money market account denominated in U.S. dollars that accrues interest at the notional interest rate, which is a rate equal to 3-month USD LIBOR.

For further description of these eligible underlying assets, please see "The Eligible Underlying Assets" in the accompanying index supplement.

What are the minimum and maximum potential weights of each eligible underlying asset and each asset class for the base index rebalancing on a base index rebalancing day?

The maximum potential weight and minimum potential weight of each eligible underlying asset and each asset class on each base index rebalancing day is listed below. The maximum weight of each eligible underlying asset and each asset class limits the exposure to each eligible underlying asset and each asset class. Thus, even if the 5% volatility target would be met during each realized volatility look-back period (the prior six months, three months and one month), the index would not allocate its entire exposure to the single eligible underlying asset that has the highest historical return during the related return look-back period (the prior nine months, six months and three months for the six-month, three-month and one-month volatility look-back period, respectively) among all of the eligible underlying assets because of the maximum weight limitations. The minimum weight restricts short exposure to any eligible underlying asset or any asset class. Because of these limitations, after giving effect to a daily base index rebalancing, the index is expected to have exposure to only a limited subset of the 15 eligible underlying assets (which could be as few as four eligible underlying assets) and you may not have any exposure to some of the 15 eligible underlying assets or asset classes during the entire term of the notes. Further, as a result of a daily total return index rebalancing, the index may not include any ETFs and may allocate its entire exposure to the money market position.

ASSET CLASS	ASSET CLASS MINIMUM WEIGHT	ASSET CLASS MAXIMUM WEIGHT	ELIGIBLE UNDERLYING ASSET*	TICKER	UNDERLYING ASSET MINIMUM WEIGHT	UNDERLYING ASSET MAXIMUM WEIGHT
Broad-Based Equities	0%	50%	SPDR® S&P 500® ETF Trust	SPY	0%	20%
			iShares® MSCI EAFE ETF	EFA	0%	20%
			iShares® MSCI Japan ETF	EWJ	0%	10%
Fixed Income	0%	50%	iShares® 20+ Year Treasury Bond ETF	TLT	0%	20%
			iShares® iBoxx $ Investment Grade Corporate Bond ETF	LQD	0%	20%
			iShares® iBoxx $ High Yield Corporate Bond ETF	HYG	0%	20%
			iShares® 7-10 Year Treasury Bond ETF	IEF	0%	20%
Emerging Markets	0%	20%	iShares® MSCI Emerging Markets ETF	EEM	0%	20%
Alternatives	0%	25%	iShares® U.S. Real Estate ETF	IYR	0%	20%
			iShares® Preferred and Income Securities ETF	PFF	0%	10%
			iShares® Nasdaq Biotechnology ETF	IBB	0%	10%
Commodities	0%	25%	SPDR® S&P® Oil & Gas Exploration & Production ETF	XOP	0%	20%
			SPDR® Gold Trust	GLD	0%	20%
Inflation	0%	10%	iShares® TIPS Bond ETF	TIP	0%	10%
Cash Equivalent	0%	50%**	Money Market Position	N/A	0%	50%**

* The value of a share of an eligible ETF may reflect transaction costs and fees incurred or imposed by the investment advisor of the eligible ETF as well as the costs to the ETF to buy and sell its assets. These costs and fees are not included in the calculation of the index underlying the eligible ETF. For more fee information relating to an eligible ETF, see "The Eligible Underlying Assets" in the accompanying index supplement.

** With respect to the money market position, the related asset class maximum weight and underlying asset maximum weight limitations do not apply to daily total return index rebalancing, and, therefore, as a result of daily total return index rebalancing, the index may allocate its entire exposure to the money market position.

What is realized volatility and how are the weights of the underlying assets influenced by it?

Realized volatility is a measurement of the degree of movement in the price or value of an asset observed over a specified period. Realized volatility is calculated by specifying a measurement period, determining the average value during such measurement period and then comparing each measured point during such measurement period to such average. The index utilizes historical realized volatility over three separate realized volatility look-back periods (six-months, three-months and one-month) for each daily base index rebalancing, which is calculated by the index calculation agent from daily closing net asset prices or the closing level, as applicable, over the prior six month, three month and one month period, as applicable. For example, an eligible underlying asset will have a higher realized volatility during a specific historical period than another eligible underlying asset if such eligible underlying asset has greater price movement (increases or decreases) relative to its average price during the measurement period. An eligible underlying asset with a stable price during a specific historical period will have a lower realized volatility than an eligible underlying asset which has relatively larger price movements during that same period. Further, an eligible underlying asset will have a higher realized volatility with respect to a specific measurement period if such underlying asset has greater price movements (increases and decreases) in such measurement period as compared to the price movements of the same underlying asset in a different measurement period.

In choosing the weights for the index underlying assets for any base index rebalancing day, the 5% volatility target limits the overall level of realized volatility that may be reflected by the index underlying assets. Since the volatility target limits the base index as a whole, when creating the three potential portfolios the realized volatility of each eligible underlying asset for the applicable look-back period needs to be compared relative to the realized volatilities of the remaining eligible underlying assets for the same look-back period. An eligible underlying asset may have a relatively high historical return during one or more return look-back periods relative to other eligible underlying assets, but may be excluded from inclusion as an index underlying asset for a given base index rebalancing day (or may be assigned a weight below its maximum weight) because that eligible underlying asset has a high realized volatility in the related volatility look-back period (or periods) relative to other eligible underlying assets. However, because the weight of each underlying asset for each base index rebalancing will equal the average of the average of the weights of such underlying asset across three potential portfolios (one for each return look-back period) for each day in the weight averaging period related to that base index rebalancing day, the impact of a low realized volatility for one look-back period may be lessened by a higher realized volatility for a different look-back period. In addition, an eligible underlying asset with a relatively high realized volatility may be included as an index underlying asset because its realized volatility is offset by another eligible underlying asset that is also included as an index underlying asset. Because the historical returns and realized volatility are measured on an aggregate basis within each potential portfolio, highly correlated eligible underlying assets may be excluded from a potential portfolio, in whole or in part, on a base index rebalancing day. Such highly correlated eligible underlying assets may be excluded even if, on an independent basis, such eligible underlying assets have a relatively high historical return or relatively low realized volatility for the applicable look-back period. Since realized volatility is based on historical data, there is no assurance that the historical level of volatility of an index underlying asset included in the index in a base index rebalancing day rebalancing will continue.

The look-back period relevant for calculating the applicable historical return and applicable historical realized volatility of each combination of eligible underlying assets is the period beginning on (and including) the day that is nine, six, three or one calendar months (or, if any such day is not an index business day, the preceding index business day), as applicable, before the third index business day immediately preceding such base index rebalancing day to (but excluding) the third index business day prior to the given index business day. The weight averaging period for any base index rebalancing day will be the period from (but excluding) the 22nd index business day on which no index market disruption event occurs or is continuing with respect to any underlying asset prior to such day to (and including) such day.

With respect to each potential portfolio, if at a base index rebalancing day no combination of eligible underlying assets complies with the 5% volatility target, asset class maximum weights and underlying asset maximum weights, then such portfolio will select, from all combinations of eligible underlying assets that comply with the asset class maximum weights and the underlying asset maximum weights, the combination with the lowest historical realized volatility for the realized volatility look-back period applicable to such potential portfolio, regardless of that combination's nine-month, six-month and three-month performance, as applicable. The particular combination so selected will exceed the 5% volatility target.

How do the weights of the index underlying assets change as a result of a daily total return index rebalancing?

The index calculation agent calculates the historical realized volatility of the base index for the applicable volatility cap period, which is the prior one month as determined below. As long as, on any given daily total return index rebalancing day, the calculated one-month realized volatility of the base index for the applicable volatility cap period is equal to or less than the volatility cap, no change to the then-current weights of the index underlying assets is made on that daily total return index rebalancing day. However, if on any given daily total return index rebalancing day the calculated volatility of the base index for the volatility cap period exceeds the volatility cap of 6%, the exposure of the index is partially rebalanced into the money market position to reduce the historical realized volatility for such volatility cap period. This is achieved by partially rebalancing, to the money market position, the exposure of the total return index to the base index through a reduction of the base index weight to the percentage that is equal to the volatility cap divided by such calculated volatility. As a result of a daily total return index rebalancing, the index may not include any ETFs (e.g., if the base index weight is reduced to zero) and may allocate its entire exposure to the money market position.

With respect to any given daily total return index rebalancing day, the volatility cap period is the period beginning on (and including) the day which is one calendar month (or, if any such date is not an index business day, the preceding index business day) before the second index business day prior to the given daily total return index rebalancing day to (and including) the third index business day prior to the given daily total return index rebalancing day. The volatility cap period with respect to any given total return index rebalancing day will not be affected by the occurrence of an index market disruption event, and the exposure to the base index will be calculated on the total return index rebalancing day as described under "— Could index market disruption events or corporate events impact the calculation of the index or a daily base index rebalancing or a daily total return index rebalancing by the index calculation agent?" below.

Examples of hypothetical daily total return index rebalancing

The following table displays hypothetical one-month realized volatility for the base index and the percent weighting of the base index for purposes of calculating the total return index value as a result of hypothetical daily total return index rebalancing in different situations. You should note that the base index itself may contain exposure to the money market position which would be in addition to any exposure to the money market position that the index reflects as a result of a daily total return index rebalancing. For purposes of highlighting the effect of a daily total return index rebalancing, the table assumes that the base index itself did not contain exposure to the money market position as a result of a daily base index rebalancing. This information is intended to illustrate the operation of the index on each daily total return index rebalancing day and is not indicative of how the index may perform in the future.
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Day	1	2	3	4	5	6	7	8	9	10
Historical One-Month Realized Volatility of the Base Index	3.0	4.9	6.1	5.3	6.2	5.6	8.5	6.0	7.4	3.9
Weight of Base Index For Purposes of Calculating the Total Return Index Value	100.00%	100.00%	98.36%	100.00%	96.77%	100.00%	70.59%	100.00%	81.08%	100.00%
Weight of Money Market Position	0.00%	0.00%	1.64%	0.00%	3.23%	0.00%	29.41%	0.00%	18.92%	0.00%

On days 1, 2, 4, 6, 8 and 10 the historical realized volatility of the base index for the applicable volatility cap period is equal to or less than the volatility cap, so the index did not ratably rebalance into the money market position on such daily total return index rebalancing day.

On days 3, 5, 7 and 9, because the historical realized volatility of the base index for the applicable volatility cap period is greater than the volatility cap, then the weight allocated to the base index for such daily total return index rebalancing day is ratably rebalanced into the money market position. Please see “Underlying Asset Weightings” in the accompanying index supplement for data regarding the frequency of daily total return index rebalancing.

What is the money market position?

The money market position is a hypothetical investment intended to express the notional returns accruing to a hypothetical investor from an investment in a money market account denominated in U.S. dollars that accrues interest at the notional interest rate, which is a rate equal to 3-month USD LIBOR. Allocation of the index to the money market position is intended to reduce the volatility of the index.

The index will provide exposure to the money market position (1) if on a daily base index rebalancing day the money market position has a relatively high performance compared to the other eligible underlying assets in a potential portfolio and/or, with respect to a realized volatility look-back period, such index underlying asset has a comparatively low realized volatility compared to the other eligible index underlying assets and is used to reduce the realized volatility of the index underlying assets in a potential portfolio on an aggregate basis and/or (2) on a daily total return index rebalancing day, if the realized volatility of the index underlying assets for the applicable volatility cap period is higher than the volatility cap, resulting in a daily total return index rebalancing.

Can the eligible underlying assets change?

Except as otherwise noted above, the eligible underlying assets and the notional interest rate are not expected to change or be replaced. However, the index committee, in its sole discretion, may eliminate an eligible ETF or notional interest rate (and/or designate a successor) if for any reason any of the following events occur with respect to such ETF or rate, in the determination of the index committee in its sole discretion:

- the ETF ceases to exist, is delisted, terminated, wound up, liquidated or files for bankruptcy, is combined with another ETF that has a different investment objective, or changes its currency of denomination;
- the ETF suspends creations or redemptions for five consecutive index business days or announces a suspension of unlimited or unspecified duration for such creations or redemptions;

- the net asset value of the ETF is not calculated or is not announced by either the ETF or its sponsor for five consecutive index business days, or an index market disruption event occurs and is continuing for five consecutive index business days;
- there has been a material diminution in the daily trading volume of the ETF or the net asset value of such ETF (where net asset value is measured as the value of an entity's assets less the value of its liabilities as publicly disclosed by this ETF or its sponsor);
- the sponsor or investment adviser of the ETF files for bankruptcy and there is no solvent immediate successor;
- limitations on ownership are imposed on the ETF due to a change in law or regulation, loss of regulatory exemptive relief or otherwise, and the index committee, in its sole discretion, determines that such limitations materially adversely affect the ability of holders of the ETF to hold, acquire or dispose of shares of such ETF;
- the tax treatment of the ETF changes in a way that would have a material adverse effect on holders of shares of such ETF;
- there has been a material change to the expense ratio or fee structure of such ETF that is adverse to holders of shares of such ETF;
- the ETF has changed the index underlying or otherwise referenced by such ETF to an index that is materially different, or the methodology for the index is materially modified (other than a modification in the ordinary course of administration of the index underlying or otherwise referenced by such ETF);
- the index underlying or otherwise referenced by the ETF is no longer compiled, or the closing level of such index is not calculated or published for five consecutive index business days;
- the index sponsor determines in its sole discretion that it is not practicable for the ETF to continue to be included in the index for any reason, including due to:
  a) a dispute as to whether a license is required to use the ETF or the related index, or
  b) to the extent there is an agreement in place governing such use, changes in the terms upon which the ETF or related index is made available to the index sponsor for inclusion in the index that the index sponsor, in its sole discretion, determines to be materially adverse to it; or
- the notional interest rate has been discontinued.

The successor ETF or rate shall be that which, in the determination of the index committee in its sole discretion, (i) with respect to a successor ETF, most closely replicates the relevant ETF or (ii) with respect to the successor rate, is determined in accordance with the procedures set forth above under "The Index –General Overview". If the index committee determines in its sole discretion that no successor ETF exists, such ETF will be removed from the index. No successor ETF or rate may fail to satisfy any of the conditions described above for replacing or removing an ETF or rate at the time the index committee decides to appoint such successor ETF or rate.

Could index market disruption events or corporate events impact the calculation of the index or a daily base index rebalancing or a daily total return index rebalancing by the index calculation agent?

If a daily base index rebalancing day must be effected on an index business day which corresponds to the first day of a given index market disruption event (as defined below) with respect to any index underlying asset, the index calculation agent shall then rebalance the index as if (i) for each index underlying asset that had not been affected by an index market disruption event, the daily base index rebalancing day occurred on such day and (ii) for each index underlying asset that had been affected by such index market disruption event, such daily base index rebalancing day did not occur on such day. (i.e., each index underlying asset that was affected by such index market disruption event is disregarded for purposes of base index rebalancing). A base index rebalancing day will be deemed not to occur on an index business day if an index market disruption event is continuing (as opposed to occurring for the first time).

If a daily total return index rebalancing day must be effected on an index business day which corresponds to the first day of a given index market disruption event or on which an index market disruption event is continuing from the prior index business day with respect to any index underlying asset, the index calculation agent shall then rebalance the index as if (i) for each index underlying asset that had not been affected by an index market disruption event, the daily total return index rebalancing day occurred on such day and (ii) for each index underlying asset that had been affected by such index market disruption event, the daily total return index rebalancing day did not occur on such day, provided that for purposes

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of calculating realized volatility the alternative calculations set forth in the next paragraph apply (i.e., other than for purposes of calculating the realized volatility in the manner set forth in the next paragraph, each index underlying asset that was affected by such index market disruption event is disregarded for purposes of daily total return index rebalancing). Consequently, if, for example, an index market disruption event were to occur for the first time on a base index rebalancing day with respect to only one of the index underlying assets, then on the base index rebalancing day on which the index market disruption event occurred the weight of all index underlying assets not affected by the index market disruption event would be determined and the weight of the affected index underlying asset would be disregarded. Further, for purposes of any daily total return index rebalancing, the exposure of the total return index to the affected index underlying asset would not be reduced but the exposure of the total return index to the remainder of the base index would be reduced so that the base index (including the affected index underlying asset) and the money market position together do not exceed the volatility cap. As a result, the weight of an index underlying asset affected by an index market disruption event could be temporarily underrepresented or overrepresented in the base index.

Solely for purposes of calculating realized volatility which includes an index business day on which a market disruption event has occurred or is continuing with respect to any eligible underlying asset, the value of the base index will include any underlying asset that has been affected by an index market disruption event and will be calculated (i) in the event of a trading disruption related to movements in price that exceed limits established by the relevant exchange, by assuming the level of the affected eligible underlying asset is equal to such price limit on such index business day or (ii) in the event of an index market disruption event which is not a trading disruption related to movements in price that exceed limits established by the relevant exchange, by multiplying the level of the affected eligible underlying asset on the immediately preceding relevant index business day by the percentage change (whether positive or negative) of the underlying asset having the largest absolute change in value from the immediately preceding relevant index business day to the relevant index business day; provided, that if a market disruption event has occurred and is continuing with respect to more than one eligible underlying asset on an index business day, then the index calculation agent shall consult with the index committee to determine the values to be used for such disrupted eligible underlying assets for purposes of calculating realized volatility and such determination to be made by the index committee in its sole discretion based on its review of such market and other information as it believes relevant to such determination.

On the sixth index business day following the occurrence of an index market disruption event with respect to any index underlying asset, if such index market disruption event is continuing, the index committee may instruct the index calculation agent to rebalance the index using a specified price. In the event the index committee determines on such sixth index business day, in its sole discretion, that no such instructions should be given to the index calculation agent, the index committee may revisit such determination on any index business day thereafter on which the index market disruption event is continuing. Notwithstanding the foregoing, in the event of a force majeure event (as defined below) in which all of the index underlying assets are affected, the calculation and publication of the index shall be postponed until, in the determination of the index calculation agent, such force majeure event has been resolved.

An “index market disruption event” will have occurred in any of the following situations: (i) the official closing price, level, rate or other measure of any eligible underlying asset is unavailable on any relevant day on which such measure is scheduled to be published, (ii) a relevant exchange (as defined below) is not open for trading during its regular trading session, or closes prior to its scheduled closing time, on any relevant day or there is a material exchange disruption (as defined below) as determined by the index calculation agent, (iii) upon the occurrence or existence of a trading disruption (as defined below) for more than two hours of trading or at any time during the one-hour period that ends at the scheduled closing time of the exchange, (iv) the net asset value per share of an eligible ETF is not calculated or is not announced by the eligible ETF or the sponsor of such ETF and such event has a material impact on the index as determined by the index sponsor, (v) the eligible ETF or the relevant sponsor of any eligible ETF suspends creations or redemptions of shares of such ETF and such event has a material impact on the index as determined by the index sponsor, (vi) upon the occurrence or existence of an index dislocation (as defined below),

(vii) upon the occurrence or existence of a force majeure event (as defined below) or (viii) upon the occurrence of an interest rate disruption event (as defined below).

A “trading disruption” means any suspension of or limitation imposed on trading by the exchange or related exchange (as defined below), and whether by reason of movements in price exceeding limits permitted by the exchange or otherwise, relating to the eligible ETF shares, related index or futures or options on the eligible ETF shares or underlying index.

An “exchange disruption” means any event that disrupts or impairs (as determined by the index calculation agent in consultation with the index committee) the ability of market participants in general to effect transactions in, or obtain market values for, the shares of the ETF on the exchange or futures or options on the ETF shares or underlying index, in each case on the relevant related exchange.

An “exchange” means the primary exchange on which shares of an eligible ETF are listed.

A “related exchange” means, in respect of an eligible ETF or underlying index, as the case may be, the primary exchange (or exchanges) or quotation system (or quotation systems) on which futures or options contracts relating to such eligible ETF or underlying index, as the case may be, are traded, if any.

An “index dislocation” means the index calculation agent (in consultation with the index committee) determines that a market participant, as a result of a market-wide condition relating to the index or any eligible underlying asset, would (i) be unable, after using commercially reasonable efforts, to acquire, establish, re-establish, substitute, maintain, unwind, or dispose of all or a material portion of any hedge position relating to the index or an eligible underlying asset or (ii) incur a materially increased cost in doing so, including due to any capital requirements or other law or regulation.

A “force majeure event” will have occurred if the index calculation agent determines that there has been the occurrence of a systems failure, natural or man-made disaster, act of God, armed conflict, act of terrorism, riot or labor disruption or any similar intervening circumstance that is beyond the reasonable control of the index sponsor, index calculation agent or any of their respective affiliates that the index calculation agent determines is likely to have a material effect on an eligible underlying asset, or on its ability to perform its role in respect of the index.

An “interest rate disruption event” means (and an interest rate disruption event shall be deemed to have occurred if), with respect to the notional interest rate and a relevant day: (i) such notional interest rate is not published on a date on which it is scheduled for publication or (ii) such notional interest rate is no longer published.

In the event that an index ETF is affected by a potential adjustment event, the index committee may make adjustments to the level of such index ETF and/or the quantities of the index underlying assets. Any of the following will be a potential adjustment event with respect to an index ETF:

Potential Adjustment Event	Adjustment	Adjustment Description
Cash Dividends	Yes	The dividend is reinvested in that index ETF.
Special / Extraordinary Dividends	Yes	The dividend is reinvested in that index ETF.
Return of Capital	Yes	The capital is reinvested in that index ETF.
Stock Dividend	Yes	Where shareholders receive “B” new shares for every “A” share held, the number of shares is adjusted by multiplying the original number of shares by the quotient of (a) the sum of A and B divided by (b) A.
Stock Split	Yes	Where shareholders receive “B” new shares for every “A” share held, the number of shares is adjusted by multiplying the original number of shares by the quotient of B divided by A.

Potential adjustment events also include any other event that could have a diluting or concentrative effect on the theoretical value of the index ETF shares and would not otherwise be accounted for in the index. The index calculation agent may make adjustments in such cases.

If the index calculation agent determines that the price made available for an index ETF (or the published level of a notional interest rate) reflects a manifest error, the calculation of the index or level shall be delayed until such time as a

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corrected price or level is made available. In the event a corrected price or level is not made available on a timely basis or in the event that the price made available for an index ETF (or the published level of a notional interest rate) is subsequently corrected and such correction is published, then the index calculation agent may, if practicable and if the index calculation agent determines acting in good faith that such error is material, adjust or correct the relevant calculation or determination, including the level of the index ETF, as of any index business day to take into account such correction. This convention, however, will not change the starting index value for the notes. However, the note calculation agent may adjust the method of calculation of the level of the index to ensure that the level of the index used to determine the amount payable on the stated maturity date is equitable. See "Terms and Conditions — Discontinuance or modification of the index" above.

On any index business day during which the price for an eligible ETF reflects such an error (and such error has not been corrected), the weights will be calculated using the price made available by the relevant exchange (notwithstanding any manifest error). If the index calculation agent determines that any such error is material (as described above) and if the relevant exchange subsequently corrects such price it has made available, the index value may be calculated using such corrected price, but the quantities of the underlying assets implied by the weights (prior to the error being corrected) will not be adjusted.

What is the historical performance of the index?

The closing level of the index has fluctuated in the past and may, in the future, experience significant fluctuations. Any upward or downward trend in the historical or hypothetical closing level of the index during any period shown below is not an indication that the index is more or less likely to increase or decrease at any time during the life of your notes.

You should not take the historical index performance information or hypothetical performance data of the index as an indication of the future performance of the index. We cannot give you any assurance that the future performance of the index, the index underlying assets, the notional interest rate will result in receiving an amount greater than the outstanding face amount of your notes on the stated maturity date.

Neither we nor any of our affiliates make any representation to you as to the performance of the index. Before investing in the offered notes, you should consult publicly available information to determine the relevant index levels between the date of this pricing supplement and the date of your purchase of the offered notes. The actual performance of the index over the life of the offered notes, as well as the cash settlement amount at maturity, may bear little relation to the historical index performance information or hypothetical performance data shown below.

Daily Closing Levels of the Index

The following graph shows the daily closing levels of the index from March 26, 2009 to March 26, 2019. Since the index was launched on May 16, 2016 and has a limited operating history, the graph includes hypothetical performance data for the index prior to its launch on May 16, 2016.

The historical closing levels from May 16, 2016 (the index launch date) to March 26, 2019 were obtained from Bloomberg Financial Services and Solactive AG, without independent verification. (In the graph, historical closing levels can be found to the right of the vertical solid line marker.) You should not take the historical index performance information as an indication of the future performance of the index.

The hypothetical performance data from March 26, 2009 to May 15, 2016 is based on the historical levels of the eligible underlying assets using the same methodology that is used to calculate the index. The hypothetical performance data prior to the launch of the index on May 16, 2016 refers to simulated performance data created by applying the index's calculation methodology to historical levels of the underlying assets that comprise the index. Such simulated performance data has been produced by the retroactive application of a back-tested methodology, and may reflect a bias towards underlying assets or related indices that have performed well in the past. No future performance of the index can be predicted based on the simulated performance described herein. You should not take the hypothetical performance data as an indication of the future performance of the index.

Historical Performance of the GS Momentum Builder® Multi Asset 5S ER Index

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Examples of Index Return Calculations

The following examples are provided to illustrate how the return on the index is calculated on an index business day given the key assumptions specified below. The examples assume the specified index underlying assets specified below. The return of the index underlying assets will be calculated as the sum of the products, as calculated for each index underlying asset, of the return for each index underlying asset multiplied by its weighting, expressed as a percentage. The examples are based on a range of final levels for the specified index underlying assets that are entirely hypothetical; no one can predict which eligible underlying assets will be chosen as index underlying assets on any day, the weightings of the index underlying assets or what the returns will be for any index underlying assets. The actual performance of the index on any index business day may bear little relation to the hypothetical examples shown below or to the historical index performance information and hypothetical performance data shown elsewhere in this pricing supplement. These examples should not be taken as an indication or prediction of future performance of the index and investment results. The numbers in the examples below have been rounded for ease for analysis.

Key Assumptions

Index underlying assets during hypothetical period and percentage weighting	EEM 20% LQD 5% IYR 20% PFF 5% Money Market Position 50%
Notional interest rate	6% per annum

Neither an index market disruption event nor a non-index business day occurs.
No change in or affecting any of the index underlying assets, index stocks or the policies of the applicable investment advisor or the method by which the underlying indices are calculated.
No dividends are paid on any index ETF.

Example 1: Each index underlying asset appreciates. The sum of the weighted returns of each index underlying asset is greater than the sum of the notional interest rate plus the accrued portion of the 0.65% per annum for the day. The volatility cap is never breached.

	Column A	Column B	Column C	Column D	Column E
Index Underlying Asset (Ticker)	Hypothetical Initial Level	Hypothetical Final Level	Return of Index Underlying Asset (Column B / Column A)-1	Weighting	Column C x Column D
EEM	100.000	100.500	0.500%	20.000%	0.100%
LQD	100.000	100.750	0.750%	5.000%	0.038%
IYR	100.000	101.000	1.000%	20.000%	0.200%
PFF	100.000	101.250	1.250%	5.000%	0.063%
Money Market Position	100.000	100.017	0.017%	50.000%	0.008%
				Return of Index Underlying Assets:	0.408%
				Return of Notional Cash Investment in the Notional Interest Rate:	0.017%
				Accrued Portion of the 0.65% Per Annum:	0.002%
				Index Return:	0.390%

In this example, the index underlying assets all had positive returns. The return of the index underlying assets prior to adjustment for the notional interest rate and the accrued portion of the 0.65% per annum for the day equals 0.408% for the day and, once the notional interest rate for the day and accrued portion of the 0.65% per annum for the day are subtracted, the return of the index for the day equals 0.390%.

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Example 2: Each index underlying asset appreciates. The sum of the weighted returns of each index underlying asset is less than the sum of the notional interest rate plus the accrued portion of the 0.65% per annum for the day. The volatility cap is never breached.

	Column A	Column B	Column C	Column D	Column E
Index Underlying Asset (Ticker)	Hypothetical Initial Level	Hypothetical Final Level	Return of Index Underlying Asset (Column B / Column A)-1	Weighting	Column C x Column D
EEM	100.000	100.010	0.010%	20.000%	0.002%
LQD	100.000	100.010	0.010%	5.000%	0.001%
IYR	100.000	100.010	0.010%	20.000%	0.002%
PFF	100.000	100.010	0.010%	5.000%	0.001%
Money Market Position	100.000	100.017	0.017%	50.000%	0.008%
				Return of Index Underlying Assets:	0.013%
				Return of Notional Cash Investment in the Notional Interest Rate:	0.017%
				Accrued Portion of the 0.65% Per Annum:	0.002%
				Index Return:	-0.005%

In this example, the index underlying assets all had positive returns. The return of the index underlying assets prior to adjustment for the notional interest rate equals 0.013% for the day and, since the sum of the notional interest rate plus the accrued portion of the 0.65% per annum for the day is greater than such return, once the notional interest rate for the day and accrued portion of the 0.65% per annum for the day are subtracted, the return of the index for the day is negative and equals -0.005%.

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Example 3: Each index underlying asset depreciates. The volatility cap is never breached.

	Column A	Column B	Column C	Column D	Column E
Index Underlying Asset (Ticker)	Hypothetical Initial Level	Hypothetical Final Level	Return of Index Underlying Asset (Column B / Column A)-1	Weighting	Column C x Column D
EEM	100.000	99.500	-0.500%	20.000%	-0.100%
LQD	100.000	99.250	-0.750%	5.000%	-0.038%
IYR	100.000	99.000	-1.000%	20.000%	-0.200%
PFF	100.000	98.750	-1.250%	5.000%	-0.063%
Money Market Position	100.000	100.017	0.017%	50.000%	0.008%
				Return of Index Underlying Assets:	-0.392%
				Return of Notional Cash Investment in the Notional Interest Rate:	0.017%
				Accrued Portion of the 0.65% Per Annum:	0.002%
				Index Return:	-0.410%

In this example, the index underlying assets all had negative returns. The return of the index underlying assets prior to adjustment for the notional interest rate and the accrued portion of the 0.65% per annum for the day equals -0.392% for the day and once the notional interest rate for the day and accrued portion of the 0.65% per annum for the day are subtracted the return of the index for the day is further reduced and equals -0.410%.

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Example 4: The index underlying assets have mixed returns. The volatility cap is never breached.

	Column A	Column B	Column C	Column D	Column E
Index Underlying Asset (Ticker)	Hypothetical Initial Level	Hypothetical Final Level	Return of Index Underlying Asset (Column B / Column A)-1	Weighting	Column C x Column D
EEM	100.000	100.500	0.500%	20.000%	0.100%
LQD	100.000	100.750	0.750%	5.000%	0.038%
IYR	100.000	99.000	-1.000%	20.000%	-0.200%
PFF	100.000	98.750	-1.250%	5.000%	-0.063%
Money Market Position	100.000	100.017	0.017%	50.000%	0.008%
				Return of Index Underlying Assets:	-0.117%
				Return of Notional Cash Investment in the Notional Interest Rate:	0.017%
				Accrued Portion of the 0.65% Per Annum:	0.002%
				Index Return:	-0.135%

In this example, three of the index underlying assets had a negative return and two had positive returns. The return of the index underlying assets prior to adjustment for the notional interest rate and the accrued portion of the 0.65% per annum for the day equals -0.117% for the day and, once the notional interest rate for the day and accrued portion of the 0.65% per annum for the day are subtracted, the return of the index for the day is further reduced and equals -0.135%.

Example 5: As a result of daily total return index rebalancing, the index ratably rebalances into the money market position on an index business day.

	Index Underlying Asset (Ticker)	Column A Hypothetical Initial Level	Column B Hypothetical Final Level	Column C Return of Index Underlying Asset (Column B / Column A)-1	Column D Weighting	Column E Column C x Column D
With Initial Exposure to the Money Market Position (prior to daily total return index rebalancing)	EEM	100.000	100.500	0.500%	20.000%	0.100%
	LQD	100.000	100.750	0.750%	5.000%	0.038%
	IYR	100.000	101.000	1.000%	20.000%	0.200%
	PFF	100.000	101.250	1.250%	5.000%	0.063%
	Money Market Position	100.000	100.017	0.017%	50.000%	0.008%
					Return of Index Underlying Assets:	0.408%
					Return of Notional Cash Investment in the Notional Interest Rate:	0.017%
					Accrued Portion of the 0.65% Per Annum:	0.002%
					Index Return:	

0.390%

	Index Underlying Asset (Ticker)	Column A Hypothetical Initial Level	Column B Hypothetical Final Level	Column C Return of Index Underlying Asset (Column B / Column A)-1	Column D Weighting	Column E Column C x Column D
With Additional Exposure to the Money Market Position (after daily total return index rebalancing)	EEM	100.000	100.500	0.500%	16.000%	0.080%
	LQD	100.000	100.750	0.750%	4.000%	0.030%
	IYR	100.000	101.000	1.000%	16.000%	0.160%
	PFF	100.000	101.250	1.250%	4.000%	0.050%
	Money Market Position	100.000	100.017	0.017%	60.000%	0.010%
					Return of Index Underlying Assets:	0.330%
					Return of Notional Cash Investment in the Notional Interest Rate:	0.017%
					Accrued Portion of the 0.65% Per Annum:	0.002%
					Index Return:	0.312%

In this example, in order to highlight the effect of rebalancing into the money market position as a result of daily total return index rebalancing, we have assumed that the realized volatility for the applicable cap period exceeds the volatility cap by 1.5%, thereby reducing the exposure to the base index (and, consequently, each index underlying asset) by 20%. We have shown what the index underlying assets' returns would have been for the index business day both without and with the daily total return index rebalancing. Since the returns on EEM, LQD, IYR and PFF were higher than the money market position, the increased weighting to the money market position for the index business day caused the return of the index to be lower than it would have been without the daily total return index rebalancing feature.

We cannot predict which eligible underlying assets will be chosen as index underlying assets on any day, the weights of the index underlying assets or what the final levels will be for any index underlying assets or the notional interest rate. The actual amount that you will receive maturity and the rate of return on the offered notes will depend on the performance of the index which will be determined by the index underlying assets chosen and their weightings.

SUPPLEMENTAL DISCUSSION OF FEDERAL INCOME TAX CONSEQUENCES

The following section supplements the discussion of U.S. federal income taxation in the accompanying prospectus.

The following section is the opinion of Sidley Austin llp, counsel to GS Finance Corp. and The Goldman Sachs Group, Inc. It applies to you only if you hold your notes as a capital asset for tax purposes. This section does not apply to you if you are a member of a class of holders subject to special rules, such as:

- a dealer in securities or currencies;
- a trader in securities that elects to use a mark-to-market method of accounting for your securities holdings;
- a bank;
- a regulated investment company;
- a life insurance company;
- a tax-exempt organization;
- a partnership;
- a person that owns the notes as a hedge or that is hedged against interest rate risks;
- a person that owns the notes as part of a straddle or conversion transaction for tax purposes; or
- a United States holder (as defined below) whose functional currency for tax purposes is not the U.S. dollar.

This section is based on the U.S. Internal Revenue Code of 1986, as amended, its legislative history, existing and proposed regulations under the Internal Revenue Code, published rulings and court decisions, all as currently in effect. These laws are subject to change, possibly on a retroactive basis.

You should consult your tax advisor concerning the U.S. federal income tax and other tax consequences of your investment in the notes, including the application of state, local or other tax laws and the possible effects of changes in federal or other tax laws.

United States Holders

This subsection describes the tax consequences to a United States holder. You are a United States holder if you are a beneficial owner of notes and you are:

- a citizen or resident of the United States;
- a domestic corporation;
- an estate whose income is subject to U.S. federal income tax regardless of its source; or
- a trust if a United States court can exercise primary supervision over the trust's administration and one or more United States persons are authorized to control all substantial decisions of the trust.

If you are not a United States holder, this section does not apply to you and you should refer to "— United States Alien Holders" below.

Your notes will be treated as debt instruments subject to special rules governing contingent payment debt instruments for U.S. federal income tax purposes. Under those rules, the amount of interest you are required to take into account for each accrual period will be determined by constructing a projected payment schedule for your notes and applying rules similar to those for accruing original issue discount on a hypothetical noncontingent debt instrument with that projected payment schedule. This method is applied by first determining the yield at which we would issue a noncontingent fixed rate debt instrument with terms and conditions similar to your notes (the "comparable yield") and then determining as of the issue date a payment schedule that would produce the comparable yield. These rules will generally have the effect of requiring you to include amounts in income in respect of your notes over their term based on the comparable yield for the notes, even though you generally will not receive any payments from us until maturity.

It is not entirely clear how, under the rules governing contingent payment debt instruments, the maturity date for debt instruments (such as your notes) that provide for the possibility of early redemption should be determined for purposes of computing the comparable yield and projected payment schedule. It would be reasonable, however, to compute the comparable yield and projected payment schedule for your notes (and we intend to make the computation in such a manner) based on the assumption that your notes will remain outstanding until the stated maturity date.

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We have determined that the comparable yield for the notes is equal to % per annum, compounded semi-annually with a projected payment at maturity of $ based on an investment of $1,000.

Based on this comparable yield, if you are an initial holder that holds a note until maturity and you pay your taxes on a calendar year basis, we have determined that you would be required to report the following amounts as ordinary income, not taking into account any positive or negative adjustments you may be required to take into account based on the actual payments on the notes, from the note each year:

Accrual Period	Interest Deemed to Accrue During Accrual Period (per $1,000 note)	Total Interest Deemed to Have Accrued from Original Issue Date (per $1,000 note) as of End of Accrual Period
through December 31, 2019		
January 1, 2020 through December 31, 2020		
January 1, 2021 through December 31, 2021		
January 1, 2022 through December 31, 2022		
January 1, 2023 through December 31, 2023		
January 1, 2024 through December 31, 2024		
January 1, 2025 through December 31, 2025		
January 1, 2026 through		

You are required to use the comparable yield and projected payment schedule that we compute in determining your interest accruals in respect of your notes, unless you timely disclose and justify on your U.S. federal income tax return the use of a different comparable yield and projected payment schedule.

The comparable yield and projected payment schedule are not provided to you for any purpose other than the determination of your interest accruals in respect of your notes, and we make no representation regarding the amount of contingent payments with respect to your notes.

If you purchase your notes at a price other than their adjusted issue price determined for tax purposes, you must determine the extent to which the difference between the price you paid for your notes and their adjusted issue price is attributable to a change in expectations as to the projected payment schedule, a change in interest rates, or both, and reasonably allocate the difference accordingly. The adjusted issue price of your notes will equal your notes' original issue price plus any interest deemed to be accrued on your notes (under the rules governing contingent payment debt instruments) as of the time you purchase your notes. The original issue price of your notes will be the first price at which a substantial amount of the notes is sold to persons other than bond houses, brokers or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers. Therefore, you may be required to make the adjustments described above even if you purchase your notes in the initial offering if you purchase your notes at a price other than the issue price.

If the adjusted issue price of your notes is greater than the price you paid for your notes, you must make positive adjustments increasing (i) the amount of interest that you would otherwise accrue and include in income each year, and (ii) the amount of ordinary income (or decreasing the amount of ordinary loss) recognized upon maturity by the amounts allocated under the previous paragraph to each of interest and the projected payment schedule; if the adjusted issue price of your notes is less than the price you paid for your notes, you must make negative adjustments, decreasing (i) the amount of interest that you must include in income each year, and (ii) the amount of ordinary income (or increasing the amount of ordinary loss) recognized upon maturity by the amounts allocated under the previous paragraph to each of interest and the projected payment schedule. Adjustments allocated to the interest amount are not made until the date the daily portion of interest accrues.

Because any Form 1099-OID that you receive will not reflect the effects of positive or negative adjustments resulting from your purchase of notes at a price other than the adjusted issue price determined for tax purposes, you are urged to consult with your tax advisor as to whether and how adjustments should be made to the amounts reported on any Form 1099-OID.

You will recognize income or loss upon the sale, exchange, redemption or maturity of your notes in an amount equal to the difference, if any, between the cash amount you receive at such time and your adjusted basis in your notes. In general, your adjusted basis in your notes will equal the amount you paid for your notes, increased by the amount of interest you previously accrued with respect to your notes (in accordance with the comparable yield and the projected payment schedule for your notes), and increased or decreased by the amount of any positive or negative adjustment, respectively, that you are required to make if you purchase your notes at a price other than the adjusted issue price determined for tax purposes.

Any income you recognize upon the sale, exchange, redemption or maturity of your notes will be ordinary interest income. Any loss you recognize at such time will be ordinary loss to the extent of interest you included as income in the current or previous taxable years in respect of your notes, and, thereafter, capital loss. If you are a noncorporate holder, you would generally be able to use such ordinary loss to offset your income only in the taxable year in which you recognize the ordinary loss and would generally not be able to carry such ordinary loss forward or back to offset income in other taxable years.

Pursuant to recently enacted legislation, for taxable years beginning after December 31, 2018, with respect to a debt instrument issued with original issue discount, such as the notes, an accrual method taxpayer that reports revenues on an applicable financial statement generally must recognize income for U.S. federal income tax purposes no later than the taxable year in which such income is taken into account as revenue in an applicable financial statement of the taxpayer. For this purpose, an "applicable financial statement" generally means a financial statement certified as having been prepared in accordance with generally accepted accounting principles or that is made on the basis of international financial reporting standards and which is used by the taxpayer for various specified purposes. This rule could potentially require such a taxpayer to recognize income for U.S. federal income tax purposes with respect to the notes prior to the time such income would be recognized pursuant to the rules described above. Potential investors in the notes should consult their tax advisors regarding the potential applicability of these rules to their investment in the notes.

United States Alien Holders

If you are a United States alien holder, please see the discussion under "United States Taxation — Taxation of Debt Securities — United States Alien Holders" in the accompanying prospectus for a description of the tax consequences relevant to you. You are a United States alien holder if you are the beneficial owner of the notes and are, for U.S. federal income tax purposes:

- a nonresident alien individual;
- a foreign corporation; or
- an estate or trust that in either case is not subject to U.S. federal income tax on a net income basis on income or gain from the notes.

The Treasury Department has issued regulations under which amounts paid or deemed paid on certain financial instruments ("871(m) financial instruments") that are treated as attributable to U.S.-source dividends could be treated, in whole or in part depending on the circumstances, as a "dividend equivalent" payment that is subject to tax at a rate of 30% (or a lower rate under an applicable treaty), which in the case of amounts you receive upon the sale, exchange, redemption or maturity of your notes, could be collected via withholding. If these regulations were to apply to the notes, we may be required to withhold such taxes if any U.S.-source dividends are paid on any ETFs included in the index during the term of the notes. We could also require you to make certifications (e.g., an applicable Internal Revenue Service Form W-8) prior to the maturity of the notes in order to avoid or minimize withholding obligations, and we could withhold accordingly (subject to your potential right to claim a refund from the Internal Revenue Service) if such certifications were not received or were not satisfactory. If withholding was required, we would not be required to pay any additional amounts with respect to amounts so withheld. These regulations generally will apply to

871(m) financial instruments (or a combination of financial instruments treated as having been entered into in connection with each other) issued (or significantly modified and treated as retired and reissued) on or after January 1, 2021, but will also apply to certain 871(m) financial instruments (or a combination of financial instruments treated as having been entered into in connection with each other) that have a delta (as defined in the applicable Treasury regulations) of one and are issued (or significantly modified and treated as retired and reissued) on or after January 1, 2017. In addition, these regulations will not apply to financial instruments that reference a "qualified index" (as defined in the regulations). We have determined that, as of the issue date of your notes, your notes will not be subject to withholding under these rules. In certain limited circumstances, however, you should be aware that it is possible for United States alien holders to be liable for tax under these rules with respect to a combination of transactions treated as having been entered into in connection with each other even when no withholding is required. You should consult your tax advisor concerning these regulations, subsequent official guidance and regarding any other possible alternative characterizations of your notes for U.S. federal income tax purposes.

Foreign Account Tax Compliance Act (FATCA) Withholding

Pursuant to Treasury regulations, Foreign Account Tax Compliance Act (FATCA) withholding (as described in "United States Taxation—Taxation of Debt Securities—Foreign Account Tax Compliance Act (FATCA) Withholding" in the accompanying prospectus) will generally apply to obligations that are issued on or after July 1, 2014; therefore, the notes will generally be subject to the FATCA withholding rules. Pursuant to recently proposed regulations, the Treasury Department has indicated its intent to eliminate the requirements under FATCA of withholding on gross proceeds from the sale, exchange, maturity or other disposition of relevant financial instruments. The Treasury Department has indicated that taxpayers may rely on these proposed regulations pending their finalization.

DEFAULT AMOUNT ON ACCELERATION

If an event of default occurs and the maturity of your notes is accelerated, the company will pay the default amount in respect of the principal of your notes at the maturity, instead of the amount payable on the stated maturity date as described earlier. We describe the default amount under “Terms and Conditions” above.

For the purpose of determining whether the holders of our Series E medium-term notes, which include your notes, are entitled to take any action under the indenture, we will treat the outstanding face amount of your notes as the outstanding principal amount of that note. Although the terms of the offered notes differ from those of the other Series E medium-term notes, holders of specified percentages in principal amount of all Series E medium-term notes, together in some cases with other series of our debt securities, will be able to take action affecting all the Series E medium-term notes, including your notes, except with respect to certain Series E medium-term notes if the terms of such notes specify that the holders of specified percentages in principal amount of all of such notes must also consent to such action. This action may involve changing some of the terms that apply to the Series E medium-term notes, accelerating the maturity of the Series E medium-term notes after a default or waiving some of our obligations under the indenture. In addition, certain changes to the indenture and the notes that only affect certain debt securities may be made with the approval of holders of a majority in principal amount of such affected debt securities. We discuss these matters in the accompanying prospectus under “Description of Debt Securities We May Offer — Default, Remedies and Waiver of Default” and “Description of Debt Securities We May Offer — Modification of the Debt Indentures and Waiver of Covenants”.

SUPPLEMENTAL PLAN OF DISTRIBUTION; CONFLICTS OF INTEREST

See “Supplemental Plan of Distribution” in the accompanying index supplement and “Plan of Distribution — Conflicts of Interest” on page 94 of the accompanying prospectus; GS Finance Corp. estimates that its share of the total offering expenses, excluding underwriting discounts and commissions, will be approximately $.

GS Finance Corp. will sell to GS&Co., and GS&Co. will purchase from GS Finance Corp., the aggregate face amount of the offered notes specified on the front cover of this pricing supplement. GS&Co. proposes initially to offer the notes to the public at the original issue price set forth on the cover page of this pricing supplement, and to certain securities dealers at such price less a concession not in excess of % of the face amount. The original issue price for notes purchased by certain retirement accounts and certain fee-based advisory accounts will be % of the face amount of the notes, which will reduce the underwriting discount specified on the cover of this pricing supplement with respect to such notes to %. GS&Co. is an affiliate of GS Finance Corp. and The Goldman Sachs Group, Inc. and, as such, will have a “conflict of interest” in this offering of notes within the meaning of Financial Industry Regulatory Authority, Inc. (FINRA) Rule 5121. Consequently, this offering of notes will be conducted in compliance with the provisions of FINRA Rule 5121. GS&Co. will not be permitted to sell notes in this offering to an account over which it exercises discretionary authority without the prior specific written approval of the account holder.

GS&Co. will also pay a fee in connection with the distribution of the notes to SIMON Markets LLC, a broker-dealer affiliated with GS Finance Corp.

We expect to deliver the notes against payment therefor in New York, New York on April 30, 2019. Under Rule 15c6-1 of the Securities Exchange Act of 1934, trades in the secondary market generally are required to settle in two business days, unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade notes on any date prior to two business days before delivery will be required to specify alternative settlement arrangements to prevent a failed settlement.

We have been advised by GS&Co. that it intends to make a market in the notes. However, neither GS&Co. nor any of our other affiliates that makes a market is obligated to do so and any of them may stop doing so at any time without notice. No assurance can be given as to the liquidity or trading market for the notes.

The notes will not be listed on any securities exchange or interdealer quotation system.

We have not authorized anyone to provide any information or to make any representations other than those contained or incorporated by reference in this pricing supplement, the accompanying index supplement, the accompanying prospectus supplement or the accompanying prospectus. We take no responsibility for, and can provide no assurance as to the reliability of, any other information that others may give you. This pricing supplement, the accompanying index supplement, the accompanying prospectus supplement and the accompanying prospectus is an offer to sell only the notes offered hereby, but only under circumstances and in jurisdictions where it is lawful to do so. The information contained in this pricing supplement, the accompanying index supplement, the accompanying prospectus supplement and the accompanying prospectus is current only as of the respective dates of such documents.

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Pricing Supplement

MOBU 5S ER Index supplement no. 2 dated March 21, 2019

Prospectus Supplement dated July 10, 2017

GS Finance Corp.

Autocallable GS Momentum Builder® Multi-Asset 5S ER Index-Linked Notes due

guaranteed by

The Goldman Sachs Group, Inc.

Prospectus dated July 10, 2017

Goldman Sachs & Co. LLC