

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE
ACT OF 1934 FOR THE FISCAL YEAR ENDED DECEMBER 31, 1998

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES
EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM _____.

COMMISSION FILE NUMBER 1-13796

GRAY COMMUNICATIONS SYSTEMS, INC.
(Exact name of registrant as specified in its charter)

GEORGIA 52-0285030
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

4370 PEACHTREE ROAD, NE 30319
ATLANTA, GA (Address of principal executive offices) (Zip Code)

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

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

CLASS A COMMON STOCK (NO PAR VALUE)	NEW YORK STOCK EXCHANGE
CLASS B COMMON STOCK (NO PAR VALUE)	NEW YORK STOCK EXCHANGE
Title of each class	Name of each exchange on which registered

SECURITIES REGISTERED PURSUANT TO SECTION 12(G) OF THE ACT: NONE

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

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

The aggregate market value of the voting stock held by non-affiliates of
the registrant as of March 11, 1999: CLASS A AND CLASS B COMMON STOCK; NO PAR
VALUE - \$128,319,479

The number of shares outstanding of the registrant's classes of common
stock as of March 11, 1999: CLASS A COMMON STOCK; NO PAR VALUE - 6,832,042
SHARES; CLASS B COMMON STOCK, NO PAR VALUE - 5,125,465 SHARES

DOCUMENTS INCORPORATED BY REFERENCE: NONE

PART 1

ITEM 1. BUSINESS

AS USED HEREIN, UNLESS THE CONTEXT OTHERWISE REQUIRES, THE "COMPANY" MEANS
GRAY COMMUNICATIONS SYSTEMS, INC. AND ITS SUBSIDIARIES. THE COMPANY CONSUMMATED
THE BUSSE-WALB TRANSACTIONS (AS HEREINAFTER DEFINED) ON JULY 31, 1998. EXCEPT
WITH RESPECT TO HISTORICAL FINANCIAL STATEMENTS AND UNLESS THE CONTEXT INDICATES
OTHERWISE, THE BUSSE-WALB TRANSACTIONS (AS HEREINAFTER DEFINED) ARE INCLUDED IN
THE DESCRIPTION OF THE COMPANY. UNLESS OTHERWISE INDICATED, THE INFORMATION
HEREIN HAS BEEN ADJUSTED TO GIVE EFFECT TO (I) A THREE FOR TWO STOCK SPLIT OF
THE COMPANY'S CLASS A COMMON STOCK, NO PAR VALUE (THE "CLASS A COMMON STOCK"),
EFFECTED IN THE FORM OF A STOCK DIVIDEND DECLARED ON OCTOBER 2, 1995 AND (II) A
THREE FOR TWO SPLIT OF THE COMPANY'S CLASS A COMMON STOCK AND THE COMPANY'S
CLASS B COMMON STOCK, NO PAR VALUE, (THE "CLASS B COMMON STOCK") EFFECTED IN THE
FORM OF A STOCK DIVIDEND DECLARED ON THE RESPECTIVE CLASS OF COMMON STOCK ON
AUGUST 20, 1998. UNLESS OTHERWISE INDICATED, ALL STATION RANK, IN-MARKET SHARE
AND TELEVISION HOUSEHOLD DATA HEREIN ARE DERIVED FROM THE NIELSEN STATION INDEX,
VIEWERS IN PROFILE, DATED NOVEMBER 1998, AS PREPARED BY A.C. NIELSEN COMPANY
("NIELSEN").

GENERAL

The Company currently owns ten network-affiliated television stations in
nine medium-size markets in the southeastern ("Southeast") and midwestern
("Midwest") United States. In seven of the nine markets served by the Company,
its stations are ranked number one in their respective markets and has the
second ranked station in the remaining two markets. The Company has the leading
local news operation in eight of the nine markets in which it operates. Seven of
the stations are affiliated with the CBS Television Network, a division of CBS,
Inc. ("CBS"), and three are affiliated with the NBC Television Network, a
division of the National Broadcasting Company, Incorporated ("NBC"). In
connection with the First American Acquisition (as hereinafter defined), the
Company will be required under current regulations of the Federal Communications
Commission (the "FCC") to divest of WJHG-TV ("WJHG"), its NBC affiliate in
Panama City, Florida. For a discussion of the Company's plans regarding such
divestiture, see "Divestiture Requirements." The Company also owns and operates

four daily newspapers, a weekly advertising only publication ("shopper"), a paging business and a transportable satellite uplink business, located in the Southeast and the Midwest.

In 1993 after the acquisition of a large block of the Class A Common Stock by a new investor, the Company implemented a strategy to foster growth through strategic acquisitions and certain select divestitures. Since January 1, 1994, the Company's significant acquisitions have included nine television stations, three newspapers, a transportable satellite uplink business and a paging business located in the Southeast and Midwest and the divestiture of two stations in the Southeast. As a result of the Company's acquisitions and in support of its growth strategy, the Company has added certain key members of management and has greatly expanded its operations in the television broadcasting and newspaper publishing businesses.

ACQUISITIONS AND DIVESTITURES

ACQUISITION OF THE GOSHEN NEWS

On March 1, 1999, the Company acquired substantially all of the assets of THE GOSHEN NEWS from News Printing Company, Inc. and affiliates thereof, for aggregate cash consideration of approximately \$16.7 million including a non-compete agreement. THE GOSHEN NEWS is a 17,000 circulation afternoon newspaper published Monday through Saturday and serves Goshen, Indiana and surrounding areas. The Company funded this acquisition through its \$200.0 million bank loan agreement (the "Senior Credit Facility.")

ACQUISITIONS AND DIVESTITURES (CONTINUED)

OPTION TO ACQUIRE INVESTMENT IN SARKES TARZIAN, INC.

On January 28, 1999, Bull Run Corporation ("Bull Run"), a principal stockholder of the Company, acquired 301,119 shares of the outstanding common stock of Sarkes Tarzian, Inc. ("Tarzian") from the Estate of Mary Tarzian (the "Estate") for \$10.0 million. The acquired shares (the "Tarzian Shares") represent 33.5% of the total outstanding common stock of Tarzian (both in terms of the number of shares of common stock outstanding and in terms of voting rights), but such investment represents 73% of the equity of Tarzian for purposes of dividends as well as distributions in the event of any liquidation, dissolution or other termination of Tarzian. Tarzian has filed a complaint in the United States District Court for the Southern District of Indiana, claiming that it had a binding contract with the Estate to purchase the Tarzian Shares from the Estate prior to Bull Run's purchase of the shares, and requests judgment providing that the Estate be required to sell the Tarzian Shares to Tarzian. Bull Run believes that a binding contract between Tarzian and the Estate did not exist, prior to Bull Run's purchase of the Tarzian Shares from the Estate, and in any case, Bull Run's purchase agreement with the Estate provides that in the event that a court of competent jurisdiction awards title to the Tarzian Shares to a person or entity other than Bull Run, the purchase agreement is rescinded and the Estate is required to pay Bull Run the full \$10.0 million purchase price, plus interest. Tarzian owns and operates two television stations and four radio stations: WRCB-TV Channel 3 in Chattanooga, Tennessee, an NBC affiliate; KTVN-TV Channel 2 in Reno, Nevada, a CBS affiliate; WGCL-AM and WTTS-FM in Bloomington, Indiana; and WAJI-FM and WLDE-FM in Fort Wayne, Indiana. The Chattanooga and Reno markets rank as the 87th and the 108th largest television markets in the United States, respectively, as ranked by Nielsen.

The Company has executed an option agreement with Bull Run, whereby the Company has the option of acquiring the Tarzian investment from Bull Run. Upon exercise of the option, the Company will pay Bull Run an amount equal to Bull Run's purchase price for the Tarzian investment and related costs. The option agreement currently expires on May 31, 1999; however, the Company may extend the option period at an established fee. In connection with the option agreement, the Company granted to Bull Run warrants to purchase up to 100,000 shares of the Company's Class B Common Stock at \$13.625 per share. The warrants vest immediately upon the Company's exercise of its option to purchase the Tarzian investment. Neither Bull Run's investment nor the Company's potential investment is presently attributable under the ownership rules of the FCC. If the Company successfully exercises the option agreement, the Company plans to fund the acquisition through its Senior Credit Facility.

BUSSE-WALB TRANSACTIONS

On July 31, 1998, the Company completed the purchase of all of the outstanding capital stock of Busse Broadcasting Corporation ("Busse"). The purchase price was \$120.5 million less the accreted value of Busse's 11 5/8% Senior Secured Notes due 2000 ("Busse Senior Notes"). The purchase price of the capital stock consisted of the contractual purchase price of \$112.0 million, associated transaction costs of \$2.9 million and Busse's cash and cash equivalents of \$5.6 million. Immediately following the acquisition of Busse, the Company exercised its right to satisfy and discharge the Busse Senior Notes, effectively prefunding the Busse Senior Notes at the October 15, 1998 call price of 106 plus accrued interest. The amount necessary to satisfy and discharge the Busse Senior Notes was approximately \$69.9 million. Based on the preliminary allocation of the purchase price, the excess of the purchase price over the fair value of net tangible assets acquired was approximately \$122.8 million.

Immediately prior to the Company's acquisition of Busse, Cosmos Broadcasting Corporation acquired the assets of WEAU-TV ("WEAU") from Busse and exchanged them for the assets of WALB-TV, Inc. ("WALB"), the Company's NBC affiliate in Albany, Georgia. In exchange for the assets of WALB, the Company received the assets of WEAU, which were valued at \$66.0 million, and approximately \$12.0 million in cash for a total value of \$78.0 million. The Company recognized a pre-tax

ACQUISITIONS AND DIVESTITURES (CONTINUED)

BUSSE-WALB TRANSACTIONS (CONTINUED)

gain of approximately \$70.6 million and estimated deferred income taxes of approximately \$27.5 million in connection with the exchange of WALB. The Company funded the remaining costs of the acquisition of Busse's capital stock through its Senior Credit Facility.

As a result of these transactions, the Company added the following television stations to its existing broadcast group: KOLN-TV("KOLN"), the CBS affiliate serving the Lincoln-Hastings-Kearney, Nebraska market; its satellite station KGIN-TV ("KGIN"), the CBS affiliate serving Grand Island, Nebraska; and WEAU, a NBC affiliate serving the La Crosse-Eau Claire, Wisconsin market. These transactions also satisfied the FCC's requirement for the Company to divest itself of WALB. The transactions described above are referred to herein as the "Busse-WALB Transactions."

WITN ACQUISITION

In August 1997, the Company acquired substantially all of the assets of WITN-TV ("WITN"), a NBC affiliate serving the Greenville-New Bern-Washington, North Carolina market (the "WITN Acquisition"). The purchase price for the WITN Acquisition was approximately \$41.7 million, including fees, expenses, and working capital and other adjustments.

GULFLINK ACQUISITION

In April 1997, the Company acquired all of the issued and outstanding common stock of GulfLink Communications, Inc. ("GulfLink") of Baton Rouge, Louisiana (the "GulfLink Acquisition"). The GulfLink operations included nine transportable satellite uplink trucks. The purchase price for the GulfLink Acquisition approximated \$5.2 million, including fees, expenses, and certain assumed liabilities. Subsequent to the GulfLink Acquisition, certain other satellite uplink truck operations of the Company were combined with GulfLink and the operating name was changed to Lynqx Communications.

THE FIRST AMERICAN ACQUISITION

In September 1996, the Company purchased from First American Media, Inc. (the "First American Acquisition") substantially all of the assets of two CBS-affiliated stations, WCTV-TV ("WCTV") serving Tallahassee, Florida-Thomasville, Georgia and WKXT-TV ("WKXT") in Knoxville, Tennessee, a satellite uplink business and a paging business. The purchase price for the First American Acquisition was approximately \$183.9 million, including fees, expenses, and working capital and other adjustments. Subsequent to the First American Acquisition, the Company rebranded WKXT with the call letters WVL ("WVL").

AUGUSTA ACQUISITION

In January 1996, the Company acquired substantially all of the assets of WRDW-TV ("WRDW"), a CBS affiliate serving Augusta, Georgia (the "Augusta Acquisition"). The purchase price of the Augusta Acquisition was approximately \$37.2 million, including fees, expenses, and certain assumed liabilities.

KTVE SALE

In August 1996, the Company sold the assets of KTVE Inc. ("KTVE"), its NBC affiliate serving Monroe, Louisiana-El Dorado, Arkansas (the "KTVE Sale") for approximately \$9.5 million in cash plus the amount of accounts receivable on the date of the closing to the extent collected by the buyer to be paid

ACQUISITIONS AND DIVESTITURES (CONTINUED)

KTVE SALE (CONTINUED)

to the Company within 150 days following the closing date (approximately \$829,000). The Company recognized a pre-tax gain of approximately \$5.7 million and estimated income taxes of approximately \$2.8 million.

PRO FORMA OPERATING RESULTS

For the year ended December 31, 1998, on a pro forma basis giving effect to the Busse-WALB Transactions as if they had occurred on January 1, 1998, the Company had net revenues, Media Cash Flow, as defined herein, Operating Cash Flow (defined as Media Cash Flow less corporate expenses) and a net loss of \$133.7 million, \$49.0 million, \$46.0 million and \$4.6 million, respectively. On a pro forma basis giving effect to the Busse-WALB Transactions, the WITN Acquisition and the GulfLink Acquisition as if they had occurred on January 1, 1997, the Company had net revenues, Media Cash Flow, as defined herein, Operating Cash Flow and a net loss of \$118.0 million, \$44.9 million, \$42.4 million and \$6.6 million, respectively.

DIVESTITURE REQUIREMENTS

In connection with the First American Acquisition, the FCC ordered the Company to divest itself of WALB in Albany, Georgia and WJHG in Panama City, Florida to comply with regulations governing common ownership of television stations with overlapping service areas. The Company complied with the FCC order regarding WALB on July 31, 1998. The FCC is currently reexamining these regulations, and if it revises them in accordance with the interim policy it has adopted, divestiture of WJHG would not be required. Accordingly, the Company requested and in July 1997 received an extension of the divestiture deadline for WJHG, conditioned upon the outcome of the rulemaking proceedings. At this time, it can not be determined when the FCC will complete its rulemaking on this subject.

TELEVISION BROADCASTING

THE COMPANY'S STATIONS AND THEIR MARKETS

AS USED IN THE TABLES FOR EACH OF THE COMPANY'S STATIONS AND IN THIS SECTION (I) "TOTAL MARKET REVENUES" REPRESENT GROSS ADVERTISING REVENUES, EXCLUDING BARTER REVENUES, FOR ALL COMMERCIAL TELEVISION STATIONS IN THE MARKET, AS REPORTED IN INVESTING IN TELEVISION 1998 MARKET REPORT, FOURTH EDITION NOVEMBER 1998 RATINGS PUBLISHED BY BIA PUBLICATIONS, INC. (THE "BIA GUIDE"), EXCEPT FOR REVENUES IN WYMT-TV'S ("WYMT") 18-COUNTY TRADING AREA WHICH IS NOT SEPARATELY REPORTED IN THE BIA GUIDE; (II) "IN-MARKET SHARE OF HOUSEHOLDS VIEWING TELEVISION" REPRESENTS THE PERCENTAGE OF THE STATION'S AUDIENCE AS A PERCENTAGE OF ALL VIEWING BY HOUSEHOLDS IN THE MARKET FROM 6 A.M. TO 2 A.M. SUNDAY THROUGH SATURDAY, INCLUDING VIEWING OF NON-COMMERCIAL STATIONS, NATIONAL CABLE CHANNELS AND OUT-OF-MARKET STATIONS BROADCAST OR CARRIED BY CABLE IN THE MARKET AS REPORTED BY NIELSEN FOR NOVEMBER 1998; (III) "STATION RANK IN DMA" IS BASED ON NIELSEN ESTIMATES FOR NOVEMBER 1998 FOR THE PERIOD FROM 6 A.M. TO 2 A.M. SUNDAY THROUGH SATURDAY; (IV) AVERAGE HOUSEHOLD INCOME, EFFECTIVE BUYING INCOME AND RETAIL BUSINESS SALES GROWTH PROJECTIONS ARE AS REPORTED IN THE BIA GUIDE; AND (V) ESTIMATES OF POPULATION ARE AS REPORTED BY THE SEPTEMBER 1998, NIELSEN STATION INDEX-U.S. TELEVISION HOUSEHOLD ESTIMATES PUBLISHED BY NIELSEN.

Station	Market	DMA Rank(1)	Commercial Stations in DMA(2)	Station Rank in DMA	Television Households(3)	Total Market Revenues in DMA for 1998	In-Market Share of Households Viewing TV
(IN THOUSANDS)							
WVLT	Knoxville, TN	63	6	2	447,000	\$68,000	25%
WKYT	Lexington, KY	67	6	1	408,000	54,100	40
WYMT(4)	Hazard, KY	67	N/A	1	167,000	5,600	30
KOLN/ KGIN (5)	Lincoln-Hastings -Kearney, NE	101	5	1	255,000	24,800	55
WITN	Greenville- New Bern- Washington, NC	105	4	2	238,000	31,000	30
WRDW	Augusta, GA	111	4	1	228,000	34,000	36
WCTV	Tallahassee, FL- Thomasville, GA	114	4	1	225,000	24,500	61
WEAU	La Crosse- Eau Claire, WI	129	4	1	179,000	25,100	39
WJHG(6)	Panama City, FL	157	4	1	120,000	11,700	49

- (1) Ranking of DMA served by a station among all DMAs is measured by the number of television households based within the DMA in the November 1998 Nielsen estimates.
- (2) Includes independent broadcasting stations and excludes satellite stations.
- (3) Based upon the approximate number of television households in the DMA as reported by Nielsen for November 1998.
- (4) The market area served by WYMT is an 18-county trading area, as defined by Nielsen, and is included in the Lexington, Kentucky DMA. WYMT's station rank is based upon its ratings position in the 18-county trading area.
- (5) KGIN is a VHF station located in Grand Island, Nebraska and is operated primarily as a satellite station of KOLN which is located in Lincoln, Nebraska.
- (6) The Company is required to divest WJHG under current FCC regulations. For a discussion of the Company's plan, see "Divestiture Requirements."

TELEVISION BROADCASTING (CONTINUED)

THE COMPANY'S STATIONS AND THEIR MARKETS (CONTINUED)

The percentage of the Company's total revenues contributed by the Company's television broadcasting segment was approximately 70.6%, 69.8% and 69.3% for each of the years ended December 31, 1998, 1997 and 1996, respectively.

In the following description of each of the Company's stations, information set forth below concerning Total Market Revenues, average household income, projected effective buying income and projected retail business sales growth has been derived from the BIA Guide. Estimates of population have been obtained from the September 1998 Nielsen Station Index-U.S. Television Household Estimates.

WVLT, THE CBS AFFILIATE IN KNOXVILLE, TENNESSEE

WVLT, acquired by the Company in September 1996, began operations in 1988. Knoxville, Tennessee is the 63rd DMA in the United States, with approximately 447,000 television households and a total population of approximately 1.2 million. Total Market Revenues in the Knoxville DMA in 1998 were approximately \$68.0 million. According to the BIA Guide, the average household income in the Knoxville DMA in 1996 was \$35,651, with effective buying income projected to grow at an annual rate of 5.4% through 2001. Retail business sales growth in the Knoxville DMA is projected by the BIA Guide to average 6.1% annually during the same period. The Knoxville DMA has six licensed commercial television stations, four of which are affiliated with major networks. The Knoxville DMA also has two public broadcasting stations.

MARKET DESCRIPTION. The Knoxville DMA, consisting of 22 counties in eastern Tennessee and southeastern Kentucky, includes the cities of Knoxville, Oak Ridge and Gatlinburg, Tennessee. The Knoxville area is a center for education, manufacturing, healthcare and tourism. The University of Tennessee's main campus is located within the city of Knoxville. Leading manufacturing employers in the area include: Lockheed Martin Energy Systems, Inc., DeRoyal Industries, Aluminum Company of North America, Phillips Consumer Electronics North America Corp., Clayton Homes and Sea Ray Boats, Inc. Area tourist attractions are the Great Smokey Mountains National Park and Dollywood, a country-western theme park sponsored by Dolly Parton.

WKYT, THE CBS AFFILIATE IN LEXINGTON, KENTUCKY

WKYT, acquired by the Company in September 1994, began operations in 1957. Lexington, Kentucky is the 67th largest DMA in the United States, with approximately 408,000 television households and a total population of approximately 1.1 million. Total Market Revenues in the Lexington DMA in 1998 were approximately \$54.1 million. According to the BIA Guide, the average household income in the Lexington DMA in 1996 was \$33,507, with effective buying income projected to grow at an annual rate of 4.4% through 2001. Retail business sales growth in the Lexington DMA is projected by the BIA Guide to average 4.3% annually during the same period. The Lexington DMA has six licensed commercial television stations, including WYMT, WKYT's sister station, five of which are affiliated with major networks. The Lexington DMA also has one public television station.

MARKET DESCRIPTION. The Lexington DMA consists of 39 counties in central and eastern Kentucky. The Lexington area is a regional hub for shopping, business, healthcare, education, and cultural activities and has a comprehensive transportation network and low commercial utility rates. Major employers in the Lexington area include Toyota Motor Corp., Lexmark International, Inc., GTE Corporation, Square D Company, Ashland, Inc., the University of Kentucky and International Business Machines Corporation.

TELEVISION BROADCASTING (CONTINUED)

WKYT, THE CBS AFFILIATE IN LEXINGTON, KENTUCKY (CONTINUED)

Eight hospitals and numerous medical clinics are located in Lexington, reinforcing Lexington's position as a regional medical center. The University of Kentucky's main campus is also located in Lexington.

WYMT, THE CBS AFFILIATE IN HAZARD, KENTUCKY

WYMT, acquired by the Company in September 1994, began operations in 1985. WYMT has carved out a niche trading area comprising 18 counties in eastern and southeastern Kentucky. This trading area is a separate marketing area of the Lexington, Kentucky DMA with approximately 167,000 television households and a total population of approximately 452,000. WYMT is the only commercial television station in this 18-county trading area. Total Market Revenues in the 18-county trading area for the year ended December 31, 1998, were approximately \$5.6 million. WYMT is the sister station of WKYT and shares many resources and simulcasts some local programming with WKYT.

MARKET DESCRIPTION. The mountain region of eastern and southeastern Kentucky where Hazard is located is on the outer edges of four separate markets: Bristol-Kingsport-Johnson City, Charleston-Huntington, Knoxville and Lexington. Prior to 1985, mountain residents relied primarily on satellite dishes and cable television carrying distant signals for their television entertainment and news. Established in 1985, WYMT is the only broadcast station which can be received over the air in a large portion of its 18-county trading area and may now be viewed on area cable systems.

The trading area's economy is centered around coal and related industries and some light manufacturing. In recent years, the coal industry has undergone a major restructuring due to consolidation in the industry and advances in technology.

KOLN\KGIN, THE CBS AFFILIATES IN LINCOLN-HASTINGS-KEARNEY, NEBRASKA

KOLN and KGIN, acquired by the Company in July 1998, began operations in 1953 and 1961, respectively. KOLN is a full power VHF television station located in Lincoln, Nebraska. KGIN is a full power VHF television station located in Grand Island, Nebraska and is operated primarily as a satellite station to KOLN in order to serve the western portion of the Lincoln-Hastings-Kearney DMA. Lincoln-Hastings-Kearney, Nebraska is the 101st largest DMA in the United States, with approximately 255,000 television households and a total population of approximately 660,000. Total Market Revenues in the Lincoln-Hastings-Kearney DMA in 1998 were approximately \$24.8 million. According to the BIA Guide, the average household income in the Lincoln-Hastings-Kearney DMA in 1996 was \$38,800, with effective buying income projected to grow at an annual rate of 4.6% through 2001. Retail business sales growth in the Lincoln-Hastings-Kearney DMA is projected by the BIA Guide to average 4.3% annually during the same period. The Lincoln-Hastings-Kearney DMA has five licensed commercial television stations, all of which are affiliated with major networks. The Lincoln-Hastings-Kearney DMA also has one public television station.

MARKET DESCRIPTION. The Lincoln-Hastings-Kearney DMA consists of 51 counties covering a large portion of the western two thirds of Nebraska and the northern tier of Kansas. The city of Lincoln is the primary economic center of the region, the capital of Nebraska and home to the University of Nebraska. The Lincoln-Hastings-Kearney economy centers around state government, education, medical services and agriculture. Leading employers in the area include: the State of Nebraska, the University of Nebraska, the Lincoln Public School System and several area hospitals.

TELEVISION BROADCASTING (CONTINUED)

WITN, THE NBC AFFILIATE IN GREENVILLE-NEW BERN-WASHINGTON, NORTH CAROLINA

WITN, acquired by the Company in August 1997, began operations in 1955. Greenville-New Bern-Washington, North Carolina is the 105th largest DMA in the United States, with approximately 238,000 television households and a total population of approximately 678,000. Total Market Revenues in the Greenville-New Bern-Washington DMA in 1998 were approximately \$31.0 million. According to the BIA Guide, the average household income in the Greenville-New Bern-Washington DMA in 1996 was \$36,500, with effective buying income projected to grow at an annual rate of 4.8% through 2001. Retail business sales growth in the Greenville-New Bern-Washington DMA is projected by the BIA Guide to average 5.2% annually during the same period. The Greenville-New Bern-Washington DMA has four licensed commercial television stations, all of which are affiliated with major networks. The Greenville-New Bern-Washington DMA also has three public television stations.

MARKET DESCRIPTION. The Greenville-New Bern-Washington DMA consists of 15 counties in eastern North Carolina. Greenville, North Carolina (located 100 miles east of Raleigh) is the primary economic center of the region and home to East Carolina University. The Greenville-New Bern-Washington economy centers around education, manufacturing, and agriculture. Leading employers in the area include: East Carolina University, Catalytica Pharmaceuticals, Inc., PCS Phosphate, Rubber Maid Cleaning Products, Inc., and Weyerhaeuser Co.

WRDW, THE CBS AFFILIATE IN AUGUSTA, GEORGIA

WRDW, acquired by the Company in January 1996, began operations in 1954. Augusta, Georgia is the 111th largest DMA in the United States, with approximately 228,000 television households and a total population of approximately 639,000. Total Market Revenues in the Augusta DMA in 1998 were approximately \$34.0 million. According to the BIA Guide, the average household income in the Augusta DMA in 1996 was \$34,238, with effective buying income projected to grow at an annual rate of 3.9% through 2001. Retail business sales growth in the Augusta DMA is projected by the BIA Guide to average 2.9% annually during the same period. The Augusta DMA has four licensed commercial television stations, all of which are affiliated with a major network. The Augusta DMA also has two public television stations.

MARKET DESCRIPTION. The Augusta DMA consists of 19 counties in eastern Georgia and western South Carolina, including the cities of Augusta, Georgia and North Augusta and Aiken, South Carolina. The Augusta, Georgia area is one of Georgia's major metropolitan/regional centers, with a particular emphasis on health services, manufacturing and the military. The federal government employs military and civilian personnel at the Department of Energy's Savannah River Site, a nuclear processing plant, and Fort Gordon, a U.S. Army military installation. Augusta has eight large hospitals which collectively employ approximately 20,000 and reinforce Augusta's status as a regional healthcare center. Augusta is also home to the Masters Golf Tournament, which has been broadcast by CBS for 43 years.

WCTV, THE CBS AFFILIATE IN TALLAHASSEE, FLORIDA-THOMASVILLE, GEORGIA

WCTV, acquired by the Company in September 1996, began operations in 1955. Tallahassee Florida-Thomasville, Georgia is the 114th largest DMA in the United States, with approximately 225,000 television households and a total population of approximately 628,000. Total Market Revenues in the Tallahassee-Thomasville DMA in 1998 were approximately \$24.5 million. According to the BIA Guide, the average household income in the Tallahassee, Florida-Thomasville, Georgia DMA in 1996 was \$35,338, with effective buying income projected to grow at an annual rate of 5.3% through 2001. Retail business sales growth in the Tallahassee, Florida-Thomasville, Georgia DMA is projected by the BIA

TELEVISION BROADCASTING (CONTINUED)

WCTV, THE CBS AFFILIATE IN TALLAHASSEE, FLORIDA-THOMASVILLE, GEORGIA (CONTINUED)

Guide to average 5.8% annually during the same period. The Tallahassee-Thomasville DMA has four licensed commercial television stations, all of which are affiliated with major networks. The Tallahassee-Thomasville DMA also has one public television station.

MARKET DESCRIPTION. The Tallahassee-Thomasville DMA, consisting of 17 counties in the panhandle of Florida and southwest Georgia, includes Tallahassee, the capital of Florida, and Thomasville, Valdosta and Bainbridge, Georgia. The Tallahassee-Thomasville economy centers around state and local government as well as state and local universities which include Florida State University, Florida A&M University, Tallahassee Community College, Thomas College and Valdosta State University. Florida State University is the largest university located in the DMA and its main campus is located within the city of Tallahassee.

WEAU, THE NBC AFFILIATE IN LA CROSSE-EAU CLAIRE, WISCONSIN

WEAU, acquired by the Company in July 1998, began operations in 1953. La Crosse-Eau Claire, Wisconsin is the 129th largest DMA in the United States, with approximately 179,000 television households and a total population of approximately 490,000. Total Market Revenues in the La Crosse-Eau Claire, Wisconsin DMA in 1998 were approximately \$25.1 million. According to the BIA Guide, the average household income in the La Crosse-Eau Claire, Wisconsin DMA in 1996 was \$34,150, with effective buying income projected to grow at an annual rate of 3.6% through 2001. Retail business sales growth in the La Crosse-Eau Claire, Wisconsin DMA is projected by the BIA Guide to average 4.6% annually during the same period. The La Crosse-Eau Claire, Wisconsin DMA has four licensed commercial television stations, all of which are affiliated with major networks. The La Crosse-Eau Claire, Wisconsin DMA also has one public television station.

MARKET DESCRIPTION. The La Crosse-Eau Claire, Wisconsin DMA, consists of 10 counties in west central Wisconsin and 2 counties in eastern Minnesota. The La Crosse and Eau Claire, Wisconsin economy centers around skilled industry, medical services, agriculture, education and retail businesses. The University of Wisconsin maintains a 10,000 student campus in Eau Claire. Leading employers include Hutchenson Technologies, the University of Wisconsin at Eau Claire and several area hospitals.

WJHG, THE NBC AFFILIATE IN PANAMA CITY, FLORIDA

WJHG, acquired by the Company in 1960, began operations in 1953. Panama City, Florida is the 157th largest DMA in the United States, with approximately 120,000 television households and a total population of approximately 324,000. Total Market Revenues in the Panama City DMA in 1998 were approximately \$11.7 million. According to the BIA Guide, the average household income in the Panama City DMA in 1996 was \$34,256, with effective buying income projected to grow at an annual rate of 6.0% through 2001. Retail business sales growth in the Panama City DMA is projected by the BIA Guide to average 6.2% annually during the same period. The Panama City DMA has four licensed commercial television stations, three of which are affiliated with major networks. In addition, a CBS signal is provided by a station in Dothan, Alabama, an adjacent DMA. The Panama City DMA also has one public television station.

MARKET DESCRIPTION. The Panama City DMA consists of nine counties in northwest Florida. The Panama City market stretches north from Florida's Gulf Coast to Alabama's southern border. The Panama City economy centers around tourism, military bases, manufacturing, education and financial services. Panama City is the county seat and principal city of Bay County. Leading employers in the area

TELEVISION BROADCASTING (CONTINUED)

WJHG, THE NBC AFFILIATE IN PANAMA CITY, FLORIDA (CONTINUED)

include: Tyndall Air Force Base, the Navy Coastal Systems Station, Sallie Mae Servicing Corp., Stone Container Corporation, Arizona Chemical Corporation and Gulf Coast Community College.

SATELLITE TRANSMISSION AND PRODUCTION SERVICES

The Company's satellite transmission and production services business, Lynqx Communications, operates C-band and Ku-band transportable satellite uplink units and provides production management services. Clients include The Golf Channel, USA Network, Turner Cable Network Services, NBC, CBS, ABC, Home Box Office, MTV, The Children's Miracle Network and many other broadcast and cable services. Subsequent to the Gulflink Acquisition, certain other satellite uplink truck operations of the Company were combined with Gulflink and the operating name was changed to Lynqx Communications.

INDUSTRY BACKGROUND

There are currently a limited number of channels available for broadcasting in any one geographic area, and the license to operate a television station is granted by the FCC. Television stations which broadcast over the very high frequency ("VHF") band (channels 2-13) of the spectrum generally have some competitive advantage over television stations which broadcast over the ultra-high frequency ("UHF") band (channels above 13) of the spectrum, because the former usually have better signal coverage and operate at a lower transmission cost. However, the improvement of UHF transmitters and receivers, the complete elimination from the marketplace of VHF-only receivers and the expansion of cable television systems have reduced the VHF signal advantage.

Television station revenues are primarily derived from local, regional and national advertising and, to a much lesser extent, from network compensation and revenues from studio and tower space rental and commercial production activities. Advertising rates are based upon a variety of factors, including a program's popularity among the viewers an advertiser wishes to attract, 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. Rates are also determined by a station's overall ratings and in-market share, as well as the station's ratings and share among particular demographic groups which an advertiser may be targeting. Because broadcast stations rely on advertising revenues, they are sensitive to cyclical changes in the economy. The size of advertisers' budgets, which are affected by broad economic trends, affect the broadcast industry in general and the revenues of individual broadcast television stations.

All television stations in the country are grouped by Nielsen, a national audience measuring service, into approximately 210 generally recognized television markets that are ranked in size according to various formulae based upon actual or potential audience. Each DMA is an exclusive geographic area consisting of all counties in which the home-market commercial stations receive the greatest percentage of total viewing hours. Nielsen periodically publishes data on estimated audiences for the television stations in the various television markets throughout the country.

Four major broadcast networks, ABC, Inc. ("ABC"), NBC, CBS, and Fox dominate broadcast television. Additionally, United Paramount Network ("UPN") and Warner Brothers Network ("WB") have been launched as new television networks. An affiliate of UPN or WB receives a smaller portion of each day's programming from its network compared to an affiliate of the four major networks.

TELEVISION BROADCASTING (CONTINUED)

INDUSTRY BACKGROUND (CONTINUED)

The affiliation of a station with one of the four major networks has a significant impact on the composition of the station's programming, revenues, expenses and operations. A typical affiliate of a major network receives the majority of each day's programming from the network. This programming, along with cash payments ("network compensation"), is provided to the affiliate by the network in exchange for a substantial majority of the advertising time sold during the airing of network programs. The network then sells this advertising time and retains the revenues. The affiliate retains the revenues from time sold during breaks in and between network programs and programs the affiliate produces or purchases from non-network sources. In acquiring programming to supplement programming supplied by the affiliated network, network affiliates compete primarily with other affiliates and independent stations in their markets. Cable systems generally do not compete with local stations for programming, although various national cable networks from time to time have acquired programs that would have otherwise been offered to local television stations. In addition, a television station may acquire programming through barter arrangements. Under barter arrangements, which are becoming increasingly popular with both network affiliates and independents, a national program distributor may receive advertising time in exchange for the programming it supplies, with the station paying a reduced fee for such programming. Most successful commercial television stations obtain their brand identity from locally produced news programs.

In contrast to a station affiliated with a network, a fully independent station purchases or produces all of the programming that it broadcasts, resulting in generally higher programming costs. An independent station, however, retains its entire inventory of advertising time and all the revenues obtained therefrom. As a result of the smaller amount of programming provided by its network, an affiliate of UPN or WB must purchase or produce a greater amount of its programming, resulting in generally higher programming costs. These affiliate stations, however, retain a larger portion of the inventory of advertising time and the revenues obtained therefrom compared to stations affiliated with the major networks.

Cable-originated programming has emerged as a significant competitor for viewers of broadcast television programming, although no single cable programming network regularly attains audience levels amounting to more than a small fraction of any single major broadcast network. The advertising share of cable networks has increased as a result of the growth in cable penetration (the percentage of television households which are connected to a cable system). Notwithstanding such increases in cable viewership and advertising, over-the-air broadcasting remains the dominant distribution system for mass market television advertising.

NETWORK AFFILIATION OF THE STATIONS

Each of the Company's stations is affiliated with a major network pursuant to an affiliation agreement. Each affiliation agreement provides the affiliated station with the right to broadcast all programs transmitted by the network with which the station is affiliated. In return, the network has the right to sell a substantial majority of the advertising time during such broadcasts. In exchange for every hour that a station elects to broadcast network programming, the network pays the station a specific network compensation payment which varies with the time of day. Typically, prime-time programming generates the highest hourly network compensation payments. Such payments are subject to increase or decrease by the network during the term of an affiliation agreement with provisions for advance notices and right of termination by the station in the event of a reduction in such payments. The NBC affiliation agreement for WJHG renews automatically every five years unless the station notifies NBC otherwise.

TELEVISION BROADCASTING (CONTINUED)

NETWORK AFFILIATION OF THE STATIONS (CONTINUED)

The NBC affiliation agreements with WITN and WEAU expire on June 30, 2006 and December 31, 2005, respectively and the WEAU agreement renews automatically every five years unless the station notifies NBC otherwise. The CBS affiliation agreements expire as follows: (i) WVLT, WKYT, WYMT and WCTV, on December 31, 2004, (ii) WRDW on March 31, 2005 and (iii) KOLN and KGIN on December 31, 2005.

NEWSPAPER PUBLISHING

At December 31, 1998, the Company owned and operated four publications comprising three newspapers and a shopper, all located in the Southeast. The percentage of total company revenues contributed by the newspaper publishing segment was approximately 22.8%, 23.7% and 28.8% for each of the years ended December 31, 1998, 1997 and 1996, respectively.

THE ALBANY HERALD

The Albany Herald Publishing Company, Inc. ("The Albany Herald"), located in Albany, Georgia, publishes THE ALBANY HERALD, which is the only seven-day-a-week newspaper that serves southwest Georgia. The Albany Herald also publishes two other weekly editions in Georgia, THE LEE COUNTY HERALD AND THE WORTH COUNTY HERALD, which both provide regional news coverage. Other niche publications include FARM AND PLANTATION, an agricultural paper; and a monthly coupon clipper. The Company introduced these weeklies and other niche product publications in order to better utilize The Albany Herald's printing presses and infrastructure (such as sales and advertising).

THE ROCKDALE CITIZEN AND THE GWINNETT DAILY POST

THE ROCKDALE CITIZEN and the GWINNETT DAILY POST are six-day-a-week newspapers that serve communities in the metro Atlanta area with complete local news, sports and lifestyles coverage together with national stories that directly impact their local communities.

The Rockdale Citizen Publishing Company is located in Conyers, Georgia, the county seat of Rockdale County, which is 19 miles east of downtown Atlanta. Rockdale County's population is estimated to be approximately 65,000.

The Gwinnett Daily Post, which was purchased by the Company in January 1995, is located north of Atlanta in Gwinnett County, one of the fastest growing areas in the nation. Since the purchase of the Gwinnett Daily Post, the frequency of publication has increased from three to six days per week.

In 1997, the Gwinnett Daily Post entered into an agreement with CableVision Communications, Inc. ("Cable Vision"), a local cable provider, that resulted in a subscription to the GWINNETT DAILY POST being included in the basic cable package purchased by cable subscribers. As a result, the GWINNETT DAILY POST'S paid circulation tripled to 49,000 in 1997, and the Company started a local Gwinnett TV news channel, Gwinnett News and Entertainment Television ("GNET"), which is produced by the Company and broadcast on the local cable system. Effective March 1, 1998 the Gwinnett Daily Post entered into a similar agreement with Genesis Cable Communications LLC ("Genesis") increasing paid circulation for the GWINNETT DAILY POST to approximately 64,000.

NEWSPAPER PUBLISHING (CONTINUED)

THE GOSHEN NEWS

The Company acquired THE GOSHEN NEWS on March 1, 1999. It is a 17,000 circulation afternoon newspaper published Monday through Saturday and serves Goshen, Indiana and surrounding areas.

INDUSTRY BACKGROUND

Newspaper publishing is the oldest segment of the media industry and, as a result of the focus on local news, newspapers in general, remain an important media for local advertising. Newspaper advertising revenues are cyclical and have generally been affected by changes in national and regional economic conditions. Financial instability in the retail industry, including bankruptcies of larger retailers and consolidations among large retail chains can result in reduced retail advertising expenditures. Classified advertising, which makes up approximately one-third of newspaper advertising expenditures, can be affected by an economic slowdown and its effect on employment, real estate transactions and automotive sales. However, growth in housing starts and automotive sales, although cyclical in nature, generally provide continued growth in newspaper advertising expenditures.

PAGERS AND PAGING SERVICES

THE PAGING BUSINESS

The paging business, acquired by the Company in September 1996 is based in Tallahassee, Florida and operates in Columbus, Macon, Albany, Thomasville, and Valdosta, Georgia, in Dothan, Alabama, in Tallahassee, Gainesville, Orlando and Panama City, Florida and in certain contiguous areas. In 1998, the Company's paging and specialized mobile radio ("SMR") business had approximately 86,000 units in service compared to approximately 67,000 units in service in 1997. The percentage of total Company revenues contributed by the paging segment was approximately 6.6%, 6.5% and 1.9% for each of the years ended December 31, 1998, 1997 and 1996, respectively.

The Company's paging system operates by connecting a telephone call placed to a local telephone number with a local paging switch. The paging switch processes a caller's information and sends the information to a link transmitter which relays the processed information to paging transmitters, which in turn alert an individual pager by means of a coded radio signal. This process provides service to a "local coverage area." To enhance coverage further to its customer base, all of the Company's local coverage areas are interconnected or networked, providing for "wide area coverage" or "network coverage." A pager's coverage area is programmable and can be customized to include or exclude any particular paging switch and its respective geographic coverage area, thereby allowing the Company's paging customers a choice of coverage areas. In addition, the Company is able to network with other paging companies which share the Company's paging frequencies in other markets, by means of an industry standard network paging protocol, in order to increase the geographic coverage area in which the Company's customers can receive paging service.

A subscriber to the Company's paging services either owns a pager, thereby paying solely for the use of the Company's paging services, or leases a pager, thereby paying a periodic charge for both the pager and the paging services. Of the Company's pagers currently in service, approximately 75% are customer owned and maintained ("COAM") with the remainder being leased. In recent years, prices for pagers have fallen considerably, and thus there has been a trend toward subscriber ownership of pagers, allowing the Company to maintain lower inventory and fixed asset levels. COAM customers historically stay on service longer, thus enhancing the stability of the subscriber base and earnings. The Company is

PAGERS AND PAGING SERVICES (CONTINUED)

THE PAGING BUSINESS (CONTINUED)

focusing its marketing efforts on increasing its base of COAM users.

The Company's goal is to increase the number of pagers in service, revenues and cash flow from operations by implementing a plan that focuses on improved operating methods and controls and innovative marketing programs. The Company's paging business has grown in recent years by: (i) acquiring smaller independent paging operations; (ii) expanding its resale program; (iii) increasing its retail operations, and (iv) increasing the Company's geographical coverage.

INDUSTRY BACKGROUND

Paging is a method of wireless communication which uses an assigned radio frequency to contact a paging subscriber within a designated service area. A subscriber carries a pager which receives messages by the broadcast of a radio signal. To contact a subscriber, a message is usually sent by placing a telephone call to the subscriber's designated telephone number. The telephone call is received by an electronic paging switch which generates a signal that is sent to radio transmitters in the subscriber's service area. The transmitters broadcast a coded signal that is unique to the pager carried by the subscriber and alerts the subscriber through a tone or vibration that there is a voice, numeric, alphanumeric or other message. Depending upon the topography of the service area, the operating radius of a radio transmitter typically ranges from three to 20 miles.

Three tiers of carriers have emerged in the paging industry: (i) large nationwide providers serving multiple markets throughout the United States; (ii) regional carriers, like the Company's paging business, which operate in regional markets such as several contiguous states in one geographic region of the United States; and (iii) small, single market operators. The Company believes that the paging industry is undergoing consolidation.

The paging industry has traditionally marketed its services through direct distribution by sales representatives. In recent years, additional channels of distribution have evolved, including: (i) carrier-operated retail stores; (ii) resellers, who purchase paging services on a wholesale basis from carriers and resell those services on a retail basis to their own customers; and (iii) sales agents who solicit customers and are compensated on a salary and commission basis.

ADDITIONAL INFORMATION ON BUSINESS SEGMENTS

Reference is made to Note J of Notes to Consolidated Financial Statements of the Company for additional information regarding business segments.

COMPETITION

TELEVISION INDUSTRY

Competition in the television industry exists on several levels: competition for audience, competition for programming (including news) and competition for advertisers. Additional factors that are material to a television station's competitive position include signal coverage and assigned frequency.

AUDIENCE. Stations compete for audience on the basis of program popularity, which has a direct effect on advertising rates. A substantial portion of the daily programming on each of the Company's

COMPETITION (CONTINUED)

TELEVISION INDUSTRY (CONTINUED)

stations is supplied by the network with which each station is affiliated. During those periods, the stations are totally dependent upon the performance of the network programs to attract viewers. There can be no assurance that such programming will achieve or maintain satisfactory viewership levels in the future. Non-network time periods are programmed by the station with a combination of self-produced news, public affairs and other entertainment programming, including news and syndicated programs purchased for cash, cash and barter, or barter only.

Independent stations, whose number has increased significantly over the past decade, have also emerged as viable competitors for television viewership shares. In addition, UPN and WB have been launched recently as new television networks. The Company is unable to predict the effect, if any, that such networks will have on the future results of the Company's operations.

In addition, the development of methods of television transmission of video programming other than over-the-air broadcasting, and in particular cable television, has significantly altered competition for audience in the television industry. These other transmission methods can increase competition for a broadcasting station by bringing into its market distant broadcasting signals not otherwise available to the station's audience and also by serving as a distribution system for non-broadcast programming. Historically, cable operators have not sought to compete with broadcast stations for a share of the local news audience. Recently, however, certain cable operators do compete for such audiences and the increased competition could have an adverse effect on the Company's advertising revenues.

Other sources of competition include home entertainment systems, "wireless cable" services, satellite master antenna television systems, low power television stations, television translator stations and direct broadcast satellite ("DBS") video distribution services.

PROGRAMMING. Competition for programming involves negotiating with national program distributors or syndicators that sell first-run and rerun packages of programming. Each station competes against the broadcast station competitors in its market for exclusive access to off-network reruns (such as SEINFELD) and first-run product (such as ENTERTAINMENT TONIGHT). Cable systems generally do not compete with local stations for programming, although various national cable networks from time to time have acquired programs that would have otherwise been offered to local television stations. Competition exists for exclusive news stories and features as well.

ADVERTISING. Advertising rates are based upon the size of the market in which the station operates, a station's overall ratings, a program's popularity among the viewers that an advertiser wishes to attract, the number of advertisers competing for the available time, the demographic makeup of the market served by the station, the availability of alternative advertising media in the market area, aggressive and knowledgeable sales forces and the development of projects, features and programs that tie advertiser messages to programming. Advertising revenues comprise the primary source of revenues for the Company's stations. The Company's stations compete for such advertising revenues with other television stations and other media in their respective markets. The stations also compete for advertising revenue with other media, such as newspapers, radio stations, magazines, outdoor advertising, transit advertising, yellow page directories, direct mail and local cable systems. Competition for advertising dollars in the broadcasting industry occurs primarily within individual markets.

COMPETITION (CONTINUED)

NEWSPAPER INDUSTRY

The Company's newspapers compete for advertisers with a number of other media outlets, including magazines, radio and television, as well as other newspapers, which also compete for readers with the Company's publications. One of the Company's newspaper competitors is significantly larger than the Company and operates in two of its newspaper markets. The Company differentiates its publications from the other newspaper by focusing on local news and local sports coverage in order to compete with its larger competitor. The Company also seeks to establish its publications as the local newspaper by sponsoring special events of particular community interest.

PAGING INDUSTRY

The paging industry is highly competitive. Companies in the industry compete on the basis of price, coverage area offered to subscribers, available services offered in addition to basic numeric or tone paging, transmission quality, system reliability and customer service. The Company competes by maintaining competitive pricing of its product and service offerings, by providing high-quality, reliable transmission networks and by furnishing subscribers a superior level of customer service.

The Company's primary competitors include those paging companies that provide wireless service in the same geographic areas in which the Company operates. The Company experiences competition from one or more competitors in all locations in which it operates. Some of the Company's competitors have greater financial and other resources than the Company.

The Company's paging services also compete with other wireless communications services such as cellular service. The typical customer uses paging as a low cost wireless communications alternative either on a stand-alone basis or in conjunction with cellular services. However, future technological developments in the wireless communications industry and enhancements of current technology could create new products and services, such as personal communications services and mobile satellite services, which are competitive with the paging services currently offered by the Company. Recent and proposed regulatory changes by the FCC are aimed at encouraging such technological developments and new services and promoting competition. There can be no assurance that the Company's paging business would not be adversely affected by such technological developments or regulatory changes.

FEDERAL REGULATION OF THE COMPANY'S BUSINESS

TELEVISION BROADCASTING

EXISTING REGULATION. Television broadcasting is subject to the jurisdiction of the FCC under the Communications Act of 1934, as amended (the "Communications Act") and the Telecommunications Act of 1996 (the "Telecommunications Act"). The Communications Act prohibits the operation of television broadcasting stations except under a license issued by the FCC and empowers the FCC, among other things, to issue, revoke and modify broadcasting licenses, determine the locations of stations, regulate the equipment used by stations, adopt regulations to carry out the provisions of the Communications Act and the Telecommunications Act and impose penalties for violation of such regulations. The Communications Act prohibits the assignment of a license or the transfer of control of a licensee without prior approval of the FCC.

LICENSE GRANT AND RENEWAL. Television broadcasting licenses generally are granted or renewed for a period of eight years but may be renewed for a shorter period upon a finding by the FCC that the "public interest, convenience, and necessity" would be served thereby. The broadcast licenses for each station are

TELEVISION BROADCASTING (CONTINUED)

effective through the following dates: WVLT - August 1, 2005; WKYT - August 1, 2005; WYMT August 1, 2005; KOLN and KGIN - June 1, 2006; WITN - December 1, 2004; WRDW - April 1, 2005; WCTV - April 1, 2005; WEAU - December 1, 2005 and WJHG - February 1, 2005, respectively. The Telecommunications Act requires a broadcast license to be renewed if the FCC finds that: (i) the station has served the public interest, convenience and necessity; (ii) there have been no serious violations of either the Telecommunications Act or the FCC's rules and regulations by the licensee; and (iii) there have been no other violations, which taken together would constitute a pattern of abuse. At the time an application is made for renewal of a television license, parties in interest may file petitions to deny, and such parties, including members of the public, may comment upon the service the station has provided during the preceding license term and urge denial of the application. If the FCC finds that the licensee has failed to meet the above-mentioned requirements, it could deny the renewal application or grant a conditional approval, including renewal for a lesser term. The FCC will not consider competing applications contemporaneously with a renewal application. Only after denying a renewal application can the FCC accept and consider competing applications for the license. Although in substantially all cases broadcast licenses are renewed by the FCC even when petitions to deny or competing applications are filed against broadcast license renewal applications, there can be no assurance that the Company's stations' licenses will be renewed. The Company is not aware of any facts or circumstances that could prevent the renewal of the licenses for its stations at the end of their respective license terms.

MULTIPLE OWNERSHIP RESTRICTIONS. Currently, the FCC has rules that limit the ability of individuals and entities to own or have an ownership interest above a certain level (an "attributable" interest, as defined more fully below) in broadcast stations, as well as other mass media entities. The current rules limit the number of radio and television stations that may be owned both on a national and a local basis. On a national basis, the rules preclude any individual or entity from having an attributable interest in co-owned television stations whose aggregate audience reach exceeds 35% of all United States households.

On a local basis, FCC rules currently allow an individual or entity to have an attributable interest in only one television station in a market. In addition, FCC rules and the Telecommunications Act generally prohibit an individual or entity from having an attributable interest in a television station and a radio station, daily newspaper or cable television system that is located in the same local market area served by the television station. Proposals currently before the FCC could substantially alter these standards. For example, in a pending rulemaking proceeding, the FCC suggested narrowing the geographic scope of the local television cross-ownership rule (the so-called "duopoly rule") from Grade B to Grade A contours for stations in adjacent markets and possibly permitting some two-station combinations within certain markets. The FCC has also proposed eliminating the TV-radio cross-ownership restriction (the so-called "one-to-a-market" rule) entirely or at least exempting larger markets. In addition, the FCC is seeking comment on issues of control and attribution with respect to local marketing agreements entered into by television stations. It is unlikely that this rulemaking will be concluded until late 1999 or later, and there can be no assurance that any of these rules will be changed or what will be the effect of any such change.

The Telecommunications Act also directs the FCC to extend its one-to-a-market (TV-Radio) waiver policy from the top 25 to any of the top 50 markets. In addition, the Telecommunications Act directs the FCC to permit a television station to affiliate with two or more networks unless such dual or multiple networks are composed of (i) two or more of the four existing networks (ABC, CBS, NBC, or FOX) or, (ii) any of the four existing networks and one of the two emerging networks (UPN or WBN). The Company believes that Congress does not intend for these limitations to apply if such networks are not operated simultaneously, or if there is no substantial overlap in the territory served by the group of stations comprising each of such networks. The Telecommunications Act also directs the FCC to revise

TELEVISION BROADCASTING (CONTINUED)

its rules to permit cross-ownership interests between a broadcast network and cable system. The Telecommunications Act further authorizes the FCC to consider revising its rules to permit common ownership of co-located broadcast stations and cable systems.

Expansion of the Company's broadcast operations in particular areas and nationwide will continue to be subject to the FCC's ownership rules and any changes the FCC or Congress may adopt. Any relaxation of the FCC's ownership rules may increase the level of competition in one or more of the markets in which the Company's stations are located, particularly to the extent that the Company's competitors may have greater resources and thereby be in a better position to capitalize on such changes.

Under the FCC's ownership rules, a direct or indirect purchaser of certain types of securities of the Company could violate FCC regulations if that purchaser owned or acquired an "attributable" or "meaningful" interest in other media properties in the same areas as stations owned by the Company or in a manner otherwise prohibited by the FCC. All officers and directors of a licensee, as well as general partners, uninsured limited partners and stockholders who own five percent or more of the voting power of the outstanding common stock of a licensee (either directly or indirectly), generally will be deemed to have an "attributable" interest in the licensee. Certain institutional investors which exert no control or influence over a licensee may own up to 10% of the voting power of the outstanding common stock before attribution occurs. Under current FCC regulations, debt instruments, non-voting stock, certain limited partnership interests (provided the licensee certifies that the limited partners are not "materially involved" in the management and operation of the subject media property) and voting stock held by minority stockholders in cases in which there is a single majority stockholder generally are not subject to attribution. The FCC's cross-interest policy, which precludes an individual or entity from having a "meaningful" (even though not "attributable") interest in one media property and an "attributable" interest in a broadcast cable or newspaper property in the same area, may be invoked in certain circumstances to reach interests not expressly covered by the multiple ownership rules.

In January 1995, the FCC released a Notice of Proposed Rule Making ("NPRM") designed to permit a "thorough review of [its] broadcast media attribution rules." Among the issues on which comment was sought are (i) whether to change the voting stock attribution benchmarks from five percent to 10% and, for passive investors, from 10% to 20%; (ii) whether there are any circumstances in which non-voting stock interests, which are currently considered non-attributable, should be considered attributable; (iii) whether the FCC should eliminate its single majority stockholder exception (pursuant to which voting interests in excess of five percent are not considered cognizable if a single majority stockholder owns more than 50% of the voting power); (iv) whether to relax insulation standards for business development companies and other widely-held limited partnerships; (v) how to treat limited liability companies and other new business forms for attribution purposes; (vi) whether to eliminate or codify the cross-interest policy; and (vii) whether to adopt a new policy which would consider whether multiple "cross interests" or other significant business relationships (such as time brokerage agreements, debt relationships or holdings of nonattributable interests), which individually do not raise concerns, raise issues with respect to diversity and competition. At this time, the Company is unable to predict when this inquiry will be completed and there can be no assurance that any of these standards will be changed. Should the attribution rules be changed, the Company is unable to predict what, if any, effect it would have on the Company or its activities. To the best of the Company's knowledge, no officer, director or five percent stockholder of the Company currently holds an attributable interest in another television station, radio station, cable television system or daily newspaper that is inconsistent with the FCC's ownership rules and policies or with ownership by the Company of its stations.

FEDERAL REGULATION OF THE COMPANY'S BUSINESS (CONTINUED)

TELEVISION BROADCASTING (CONTINUED)

ALIEN OWNERSHIP RESTRICTIONS. The Communications Act restricts the ability of foreign entities or individuals to own or hold interests in broadcast licenses. Foreign governments, representatives of foreign governments, non-citizens, representatives of non-citizens, and corporations or partnerships organized under the laws of a foreign nation are barred from holding broadcast licenses. Non-citizens, collectively, may directly or indirectly own or vote up to 20% of the capital stock of a licensee. In addition, a broadcast license may not be granted to or held by any corporation that is controlled, directly or indirectly, by any other corporation more than one-fourth of whose capital stock is owned or voted by non-citizens or their representatives or by foreign governments or their representatives, or by non-U.S. corporations, if the FCC finds that the public interest will be served by the refusal or revocation of such license. The Company has been advised that the FCC staff has interpreted this provision of the Communications Act to require an affirmative public interest finding before a broadcast license may be granted to or held by any such corporation and the FCC has made such an affirmative finding only in limited circumstances. The Company, which serves as a holding company for wholly-owned subsidiaries that are licensees for its stations, therefore may be restricted from having more than one-fourth of its stock owned or voted directly or indirectly by non-citizens, foreign governments, representatives of non-citizens or foreign governments, or foreign corporations.

RECENT DEVELOPMENTS. Congress has recently enacted legislation and the FCC currently has under consideration or is implementing new regulations and policies regarding a wide variety of matters that could affect, directly or indirectly, the operation and ownership of the Company's broadcast properties. In addition to the proposed changes noted above, such matters include, for example, the license renewal process (particularly the weight to be given to the expectancy of renewal for an incumbent broadcast licensee and the criteria to be applied in deciding contested renewal applications), spectrum use fees, political advertising rates, potential advertising restrictions on the advertising of certain products (hard liquor), the rules and policies to be applied in enforcing the FCC's equal employment opportunity regulations, cable carriage of digital television signals, viewing of distant network signals by direct broadcast satellite services, and the standards to govern evaluation of television programming directed toward children and violent and indecent programming (including the possible requirement of what is commonly referred to as the "v-chip," which would permit parents to program television sets so that certain programming would not be accessible by children). Other matters that could affect the Company's broadcast properties include technological innovations and developments generally affecting competition in the mass communications industry, such as the recent initiation of direct broadcast satellite service, and the continued establishment of wireless cable systems and low power television stations.

The FCC presently is seeking comment on its policies designed to increase minority ownership of mass media facilities. Congress also recently enacted legislation that eliminated the minority tax certificate program of the FCC, which gave favorable tax treatment to entities selling broadcast stations to entities controlled by an ethnic minority. In addition, a recent federal appeals court decision has cast doubt upon the continued validity of many of the FCC's programs designed to increase minority employment in the broadcast industry.

DISTRIBUTION OF VIDEO SERVICES BY TELEPHONE COMPANIES. Recent actions by the FCC, Congress and the courts all presage significant future involvement in the provision of video services by telephone companies. The Company cannot predict either the timing or the extent of such involvement.

THE 1992 CABLE ACT. On October 5, 1992, Congress enacted the Cable Television Consumer Protection and Competition Act of 1992 (the "1992 Cable Act"). The FCC began implementing the requirements of the 1992 Cable Act in 1993 and final implementation proceedings remain pending.

TELEVISION BROADCASTING (CONTINUED)

regarding certain of the rules and regulations previously adopted. Certain statutory provisions, such as signal carriage, retransmission consent and equal employment opportunity requirements, have a direct effect on television broadcasting. Other provisions are focused exclusively on the regulation of cable television but can still be expected to have an indirect effect on the Company because of the competition between over-the-air television stations and cable systems.

The signal carriage, or "must carry," provisions of the 1992 Cable Act require cable operators to carry the signals of local commercial and non-commercial television stations and certain low power television stations. Systems with 12 or fewer usable activated channels and more than 300 subscribers must carry the signals of at least three local commercial television stations. A cable system with more than 12 usable activated channels, regardless of the number of subscribers, must carry the signals of all local commercial television stations, up to one-third of the aggregate number of usable activated channels of such system. The 1992 Cable Act also includes a retransmission consent provision that prohibits cable operators and other multi-channel video programming distributors from carrying broadcast stations without obtaining their consent in certain circumstances. The "must carry" and retransmission consent provisions are related in that a local television broadcaster, on a cable system-by-cable-system basis, must make a choice once every three years whether to proceed under the "must carry" rules or to waive that right to mandatory but uncompensated carriage and negotiate a grant of retransmission consent to permit the cable system to carry the station's signal, in most cases in exchange for some form of consideration from the cable operator. Cable systems must obtain retransmission consent to carry all distant commercial stations other than certain "super stations" delivered via satellite.

Under rules adopted to implement these "must carry" and retransmission consent provisions, local television stations are required to make an election of "must carry" or retransmission consent at three year intervals. Stations that fail to elect are deemed to have elected carriage under the "must carry" provisions. Other issues addressed in the FCC rules are market designations, the scope of retransmission consent and procedural requirements for implementing the signal carriage provisions. Each of the Company's stations has elected "must carry" status on certain cable systems in its DMA; on others the Company's stations have entered into retransmission consent agreements. This election entitled the Company's stations to carriage on those systems until at least December 31, 1999.

DIGITAL TELEVISION SERVICE. The FCC has proposed the adoption of rules for implementing advanced television ("DTV") service in the United States. Implementation of digital DTV will improve the technical quality of television signals receivable by viewers and will provide broadcasters the flexibility to offer new services, including high-definition television ("HDTV"), simultaneous broadcasting of multiple programs of standard definition television ("SDTV") and data broadcasting.

The FCC must adopt DTV service rules and a table of DTV allotments before broadcasters can provide these services enabled by the new technology. On July 28, 1995, the FCC announced the issuance of a NPRM to invite comment on a broad range of issues related to the implementation of DTV, particularly the transition to digital broadcasting. The FCC announced that the anticipated role of digital broadcasting will cause it to revisit certain decisions made in an earlier order. The FCC also announced that broadcasters will be allowed greater flexibility in responding to market demand by transmitting a mix of HDTV, SDTV and perhaps other services. In February 1998, the FCC acted on numerous petitions for reconsideration and issued a new table of allotments that expands the channels (2-51) available for permanent digital broadcasting operations.

FEDERAL REGULATION OF THE COMPANY'S BUSINESS (CONTINUED)

TELEVISION BROADCASTING (CONTINUED)

The Telecommunications Act directs the FCC, if it issues licenses for DTV, to limit the initial eligibility for such licenses to incumbent broadcast licensees. It also authorizes the FCC to adopt regulations that would permit broadcasters to use such spectrum for ancillary or supplementary services. The FCC will assign all existing television licensees a second channel on which to provide DTV simultaneously with their current NTSC service. It is possible after a period of years that broadcasters would be required to cease NTSC operations, return the NTSC channel to the FCC, and broadcast only with the newer digital technology. Some members of Congress have advocated authorizing the FCC to auction either NTSC or DTV channels; however, the Telecommunications Act allows the FCC to determine when such licenses will be returned and how to allocate returned spectrum.

Under certain circumstances, conversion to DTV operations would reduce a station's geographical coverage area but the majority of stations will obtain service areas that match or exceed the limits of existing operations. Due to additional equipment costs, implementation of DTV will impose some near-term financial burdens on television stations providing the service. At the same time, there is a potential for increased revenues to be derived from DTV, partially from operations or expanded channel capacity through multicasting. Although the Company believes the FCC will authorize DTV in the United States, The Company cannot predict precisely the overall effect the transition to DTV might have on the Company's business.

DIRECT BROADCASTING SATELLITE SYSTEMS. The FCC has authorized DBS, a service which provides video programming via satellite directly to home subscribers. Local broadcast stations and broadcast network programming are not carried on DBS systems. Proposals recently advanced in the Telecommunications Act include a prohibition on restrictions that inhibit a viewer's ability to receive video programming through DBS services. The FCC has exclusive jurisdiction over the regulation of DBS service. The Company cannot predict the impact of this new service upon the Company's business or the impact of possible legislation on the growth of DBS service.

PAGING AND SMR

FEDERAL REGULATION. The Company's paging and SMR operations, acquired by the Company in September 1996, are subject to regulation by the FCC under the Communications Act. The FCC has granted the Company licenses to use the radio frequencies necessary to conduct its paging and SMR operations. Licenses issued by the FCC to the Company set forth the technical parameters, such as signal strength and tower height, under which the Company is authorized to use those frequencies.

LICENSE GRANT AND RENEWAL. The FCC licenses granted to the Company are for varying terms of up to 10 years, at the end of which renewal applications must be approved by the FCC. The Company holds various FCC radio licenses which are used in connection with its paging and SMR operations. The license expiration dates for these licenses are staggered, with only a portion of the licenses expiring in any particular calendar year. The largest group of licenses will expire during calendar year 1999. Licensees in the paging and SMR services normally enjoy a license renewal expectancy and the vast majority of license renewal applications are granted in the normal course. Although the Company is unaware of any circumstances which could prevent the grant of renewal applications, no assurance can be given that any of the Company's licenses will be free of competing applications or will be renewed by the FCC. Furthermore, the FCC has the authority to restrict the operations of licensed facilities or to revoke or modify licenses. None of the Company's licenses have ever been revoked or modified involuntarily, and such proceedings by the FCC are rarely undertaken.

PAGING AND SMR (CONTINUED)

Pursuant to Congressional mandate, the FCC has adopted rules regarding the award of site-by-site and market area license authorizations by competitive bidding. Pursuant to those rules, the FCC may award licenses for new or existing services by auction, as done with the 800 MHz and 900 MHz SMR bands, and as it has proposed to do so with the paging services. Accordingly, there can be no assurance that the Company will be able to procure additional spectrum, or expand its existing paging and SMR networks into new service areas.

The winner of the geographic area license has the right to use a certain frequency or block of frequencies throughout the licensed service area, may construct and operate its transmitters in its authorized service area without prior FCC approval, provided that the construction of the transmitter would not constitute a major environmental action under the FCC rules. The market area licensee is required, however, to protect incumbent licensees from the potential for harmful co-channel interference. The FCC has completed auctions to license various radio services on a market area basis including the first phase of the 800 MHz trunked SMR auction, which concluded in December 1997. In these auctions, successful bidders have made significant auction payments in order to obtain spectrum. The Company was the high bidder for the Tallahassee, Florida; Albany and Columbus, Georgia and Auburn, Alabama Economic Area Markets. The Company has received grants of its market area licenses. The FCC has conditioned the continued validity of these licenses on the Company meeting certain coverage benchmarks, which the Company believes will be attained. In this regard, the Company entered into an asset purchase agreement with Nextel South Corporation (Nextel) for the purchase and sale of its 800MHz geographic area licenses covering the Tallahassee, Florida; Albany and Columbus, Georgia Economic Areas. Prior FCC consent to the proposed transaction is required before the Company may consummate the sale to Nextel. The Company anticipates that it will obtain the FCC's consent to the transaction in the normal course, although it is possible a competitor could file a protest against the transaction. In the event a protest is filed, any grant of the FCC's consent would be delayed, or could possibly be withheld.

With respect to its paging operations, the Company may choose to participate in the market area licensing auctions for the paging services. The first such auction, for the 900 MHz paging band is tentatively scheduled for calendar year 1999. The lower paging bands, e.g., the exclusive 150 Mhz frequencies on which the Company is licensed, are likely to be the subject of market area licensing auctions in calendar year 2000. There is no assurance that the Company will be able to successfully bid on its existing frequencies; however, the market area licensee will be required to protect the Company and any other incumbent licensees from the potential for harmful co-channel interference.

EMPLOYEES

As of March 11, 1999, the Company had 1,233 full-time employees, of which 757 were employees of the Company's stations, 393 were employees of the Company's publications, 70 were employees of the Company's paging operations and 13 were corporate and administrative personnel. None of the Company's employees are represented by unions. The Company believes that its relations with its employees are satisfactory.

ITEM 2. PROPERTIES

The Company's principal executive offices are located at 4370 Peachtree Road, NE, Atlanta, Georgia, 30319.

The types of properties required to support television stations include offices, studios, transmitter sites and antenna sites. The types of properties required to support newspaper publishing include offices, facilities for the printing press and production and storage. A station's studios are generally housed with its offices in business districts. The transmitter sites and antenna are generally located in elevated areas to provide optimal signal strength and coverage.

The following table sets forth certain information regarding the Company's properties.

TELEVISION BROADCASTING

Station/Approximate Property Location	Use	Owned or Leased	Approximate Size	Expiration of Lease
WKYT Lexington, KY	Office, studio and transmission tower site	Owned	34,500 sq. ft. building on 20 acres	--
WYMT Hazard, KY	Office and studio	Owned	21,200 sq. ft. building on 2 acres	--
Hazard, KY Hazard, KY	Transmission tower site Transmitter building and improvements	Leased Owned	-- 1,248 sq. ft.	June 2005 --
WRDW North Augusta, SC	Office and studio Transmission tower site	Owned Owned	17,000 sq. ft. 143 acres	-- --
WJHG Panama City, FL Youngstown, FL	Office and studio Transmission tower site	Owned Owned	14,000 sq. ft. 17 acres	-- --
WVLT Knoxville, TN	Office and studio Transmission tower site	Owned Leased	18,000 sq. ft. Tower space	-- Month to Month
WCTV Tallahassee, FL Metcalf, GA	Office and studio Transmission tower site	Owned Leased Leased	20,000 sq. ft. on 37 acres 182 acres	Dec. 2014 Nov. 1999
WEAU Eau Claire, WI Township of Fairchild, WI	Office and studio Transmitter building & Transmission tower site	Owned Owned	16,116 sq. ft. of buildings on 2 acres 2,304 sq. ft. building on 6 acres	-- --

TELEVISION BROADCASTING (CONTINUED)

Station/Approximate Property Location	Use	Owned or Leased	Approximate Size	Expiration of Lease
KOLN				
Beaver Crossing, NE	Transmission tower site	Owned	120 acres	--
Lincoln, NE	Office and studio	Owned	28,044 sq. ft. building on 5 acres	--
Bradshaw, NE	Transmission tower site	Owned	8 acres	--
KGIN				
Heartwell, NE	Transmission tower site	Owned	71 acres	--
Grand Island, NE	Office and studio	Leased	5,153 sq. ft.	Dec. 1999
WITN				
Washington, NC	Office and studio	Owned	19,600 sq. ft.	--
Grifton, NC	Transmitter building	Owned	4,190 sq. ft.	--
Grifton, NC	Transmission tower site	Leased	9 acres	Jan. 2000
Lynqx Communications				
Baton Rouge, LA	Office and repair site	Leased	6,800 sq. ft.	Dec. 1999
Tallahassee, FL	Office	Owned	1,000 sq. ft.	--

PUBLISHING

Approximate Property Location	Use	Owned or Leased	Approximate Size	Expiration of Lease
The Albany Herald Publishing Company, Inc.				
Albany, GA	Offices, printing press and production facility for The Albany Herald Publishing Company, Inc.	Owned	83,000 sq. ft.	--
The Rockdale Citizen Publishing Company				
Conyers, GA	Offices for The Rockdale Citizen	Owned	20,000 sq. ft.	--
Conyers, GA	Offices, printing press and production facility for The Rockdale Citizen and the Gwinnett Daily Post	Leased	20,000 sq. ft.	May 2002
Lawrenceville, GA	Offices for the Gwinnett Daily Post	Leased	11,000 sq. ft.	Nov. 1999

PAGING

Approximate Property Location	Use	Owned or Leased	Approximate Size	Expiration of Lease
Albany, GA	Sales Office	Leased	1,500 sq. ft.	May 2001
Columbus, GA	Sales Office	Leased	1,000 sq. ft.	July 2001
Macon Road #2	Sales Office	Leased	1,200 sq. ft.	Jan. 2001
Veterans Parkway	Sales Office	Leased	300 sq. ft.	Month to Month
Cross Co.	Sales Office	Leased	1,374 sq. ft.	June 2002
Lumpkin Road	Sales Office	Leased	2,800 sq. ft.	May 2002
Dothan, AL	Sales Office	Leased	800 sq. ft.	Feb. 2000
Macon, GA	Sales Office	Leased	1,260 sq. ft.	July 1999
Tallahassee, FL	Sales Office	Leased	1,800 sq. ft.	Sept. 2000
Tallahassee, FL	General and Administrative Office	Leased	2,400 sq. ft.	Mar. 2002
Thomasville, GA	Sales Office	Leased	300 sq. ft.	May 2000
Valdosta, GA	Sales Office	Leased	800 sq. ft.	Oct. 2000
Panama City, FL	Sales Office	Leased	1,050 sq. ft.	Jan. 2001
Gainesville, FL	Sales Office	Leased	1,100 sq. ft.	Oct. 2000
Orlando, FL	Sales Office	Leased	2,000 sq. ft.	Apr. 2001
Melbourne, FL	Sales Office	Leased	960 sq. ft.	Sept. 2001
Kissimmee, FL	Sales Office	Leased	840 sq. ft.	Nov. 2001
Tampa, FL	Sales Office	Leased	300 sq. ft.	Month to month
Lakeland, FL	Sales Office	Leased	300 sq. ft.	Month to month

The paging operations also lease space on various towers in Florida, Georgia and Alabama. These tower leases have expiration dates ranging from 1999 to 2002.

ITEM 3. LEGAL PROCEEDINGS

The Company is not party to any legal proceedings in which an adverse outcome would have a material adverse effect, either individually or in the aggregate, upon the Company.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders of the Company during the fourth quarter of the fiscal year covered.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Since June 30, 1995, the Company's Class A Common Stock, no par value, (the "Class A Common Stock") has been listed and traded on The New York Stock Exchange (the "NYSE") under the symbol "GCS." Since September 24, 1996, the date of its initial issuance, the Company's Class B Common Stock, no par value, (the "Class B Common Stock") has also been listed and traded on the NYSE under the symbol "GCS.B". The following table sets forth the high and low sale prices of the Class A Common Stock and Class B Common Stock as well as the cash dividend declared for the periods indicated. The high and low sales prices of the Class A Common Stock and the Class B Common Stock are as reported by the NYSE. On August 20, 1998, the Board of Directors declared a 50% stock dividend, payable on September 30, 1998, to stockholders of record of the Class A Common Stock and Class B Common Stock on September 16, 1998. This stock dividend effected a three for two stock split. All applicable share and per share data have been adjusted to give effect to the stock split.

	CLASS A COMMON STOCK			CLASS B COMMON STOCK		
	HIGH	LOW	CASH DIVIDENDS DECLARED PER SHARE	HIGH	LOW	CASH DIVIDENDS DECLARED PER SHARE
FISCAL 1998						
First Quarter	\$19.67	\$16.00	\$0.013	\$19.33	\$15.75	\$0.013
Second Quarter	21.75	19.33	0.013	20.58	19.00	0.013
Third Quarter	22.00	18.83	0.013	21.50	16.54	0.013
Fourth Quarter	19.00	16.63	0.020	16.63	12.50	0.020
FISCAL 1997						
First Quarter	\$13.83	\$11.75	\$0.013	\$13.00	\$10.92	\$0.013
Second Quarter	14.96	11.17	0.013	13.92	10.25	0.013
Third Quarter	17.08	13.54	0.013	17.00	12.58	0.013
Fourth Quarter	18.58	16.67	0.013	17.42	16.04	0.013

As of March 11, 1999, the Company had 6,832,042 outstanding shares of Class A Common Stock held by 1,111 stockholders and 5,125,465 outstanding shares of Class B Common Stock held by 951 stockholders. The number of stockholders includes stockholders of record and individual participants in security position listings as furnished to the Company pursuant to Rule 17Ad-8 under the Exchange Act.

The Company has paid a dividend on its Class A Common Stock since 1967. In 1996 the Company amended its Articles of Incorporation to provide that each share of Class A Common Stock is entitled to 10 votes and each share of Class B Common Stock is entitled to one vote. The Articles of Incorporation, as amended, require that the Class A Common Stock and the Class B Common Stock receive dividends on a PARI PASSU basis. There can be no assurance of the Company's ability to continue to pay any dividends on either class of Common Stock.

The Senior Credit Facility and the Company's Senior Subordinated Notes due 2006 (the "Notes") each contain covenants that restrict the ability of the Company to pay dividends on its capital stock. However, the Company does not believe that such covenants currently limit its ability to pay dividends at the recent quarterly rate of \$0.02 per share. In addition to the foregoing, the declaration and payment of dividends on the Class A Common Stock and the Class B Common Stock are subject to the discretion of the Board of Directors. Any future payments of dividends will depend on the earnings and financial position of the Company and such other factors as the Board of Directors deems relevant.

ITEM 6. SELECTED FINANCIAL DATA

Set forth below are certain selected historical consolidated financial data of the Company. This information should be read in conjunction with the Audited Consolidated Financial Statements of the Company and related notes thereto appearing elsewhere herein and "Management's Discussion and Analysis of Financial Condition and Results of Operations-Results of Operations of the Company." The selected consolidated financial data for, and as of the end of, each of the years in the five-year period ended December 31, 1998, are derived from the Audited Consolidated Financial Statements of the Company and its subsidiaries. Also see pro forma data for the Busse-WALB Transactions, WITN Acquisition, the GulfLink Acquisition, the First American Acquisition, the Augusta Acquisition and the KTVE Sale in Note B to the Company's Audited Consolidated Financial Statements included elsewhere herein.

	YEAR ENDED DECEMBER 31,				
	1998(1)	1997(2)	1996 (3)	1995 (4)	1994
(IN THOUSANDS EXCEPT PER SHARE DATA)					
STATEMENTS OF OPERATIONS DATA					
Revenues	\$128,890	\$103,548	\$79,305	\$ 58,616	\$36,518
Operating income (5)	24,927	20,730	16,079	6,860	6,276
Income (loss) from continuing operations	41,659	(1,402)	5,678	931	2,766
Income (loss) from continuing operations available to common stockholders	40,342	(2,812)	5,302	931	2,766
Income (loss) from continuing operations available to common stockholders per common share (6)(7):					
Basic	3.38	(0.24)	0.65	0.14	0.39
Diluted	3.25	(0.24)	0.62	0.14	0.39
Cash dividends per common share (6)(7)	\$ 0.06	\$ 0.05	\$ 0.05	\$ 0.05	\$ 0.05
BALANCE SHEET DATA (AT END OF PERIOD):					
Total assets	\$468,974	\$ 345,051	\$298,664	\$78,240	\$68,789
Long-term debt (including current portion)	270,655	227,076	173,368	54,324	52,940
Total stockholders' equity	\$126,703	\$ 92,295	\$95,226	\$ 8,986	\$ 5,001

(1) The financial data reflects the operating results of the Busse-WALB Transactions, which were completed on July 31, 1998, as of their respective acquisition dates. See Note B to the Company's Audited Consolidated Financial Statements included elsewhere herein.

(2) The financial data reflects the operating results of the WITN Acquisition and the GulfLink Acquisition, which were completed in 1997, as of their respective acquisition dates. See Note B to the Company's Audited Consolidated Financial Statements included elsewhere herein.

(3) The financial data reflects the operating results of the Augusta Acquisition and the First American Acquisition, as well as the KTVE Sale, all of which were completed in 1996, as of their respective acquisition, or disposition dates. The Company also incurred an extraordinary charge in connection with the early extinguishment of debt. See Notes B and C to the Company's Audited Consolidated Financial Statements included elsewhere herein.

(4) The financial data reflects the operating results of the acquisition of The Gwinnett Daily Post in January 1995.

- (5) Operating income excludes gain on disposition of television stations of \$70.6 million recognized for the exchange of WALB in 1998 and \$5.7 million recognized for the sale of KTVE in 1996.
- (6) On August 20, 1998, the Company's Board of Directors declared a 50% stock dividend, payable on September 30, 1998, to stockholders of record of the Class A Common Stock and Class B Common Stock on September 16, 1998. This stock dividend effected a three for two stock split. All applicable share and per share data have been adjusted to give effect to the stock split.
- (7) On August 17, 1995, the Company's Board of Directors authorized a 50% stock dividend on the Company's Class A Common Stock payable October 2, 1995 to stockholders of record on September 8, 1995 to effect a three for two stock split. All applicable share and per share data have been adjusted to give effect to the stock split.

THESE SUMMARIES SHOULD BE READ IN CONJUNCTION WITH THE RELATED CONSOLIDATED FINANCIAL STATEMENTS AND NOTES THERETO INCLUDED UNDER ITEM 8.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS OF THE COMPANY

INTRODUCTION

The following analysis of the financial condition and results of operations of Gray Communications Systems, Inc. (the "Company") should be read in conjunction with the Company's Audited Consolidated Financial Statements and notes thereto included elsewhere herein.

On July 31, 1998, the Company completed the purchase of all of the outstanding capital stock of Busse Broadcasting Corporation ("Busse"). The purchase price was \$120.5 million less the accreted value of Busse's 11 5/8% Senior Secured Notes due 2000 ("Busse Senior Notes"). The purchase price of the capital stock consisted of the contractual purchase price of \$112.0 million, associated transaction costs of \$2.9 million and Busse's cash and cash equivalents of \$5.6 million. Immediately following the acquisition of Busse, the Company exercised its right to satisfy and discharge the Busse Senior Notes, effectively prefunding the Busse Senior Notes at the October 15, 1998 call price of 106 plus accrued interest. The amount necessary to satisfy and discharge the Busse Senior Notes was approximately \$69.9 million. Based on the preliminary allocation of the purchase price, the excess of the purchase price over the fair value of net tangible assets acquired was approximately \$122.8 million.

Immediately prior to the Company's acquisition of Busse, Cosmos Broadcasting Corporation acquired the assets of WEAU-TV ("WEAU") from Busse and exchanged them for the assets of WALB-TV, Inc. ("WALB"), the Company's NBC affiliate in Albany, Georgia. In exchange for the assets of WALB, the Company received the assets of WEAU, which were valued at \$66.0 million, and approximately \$12.0 million in cash for a total value of \$78.0 million. The Company recognized a pre-tax gain of approximately \$70.6 million and estimated deferred income taxes of approximately \$27.5 million in connection with the exchange of WALB. The Company funded the remaining costs of the acquisition of Busse's capital stock through its \$200.0 million bank loan agreement (the "Senior Credit Facility"). The transactions described above are referred to herein as the "Busse-WALB Transactions."

On August 1, 1997 the Company purchased substantially all of the assets of WITN-TV ("WITN"), the NBC affiliate in the Greenville-New Bern-Washington, North Carolina market (the "WITN Acquisition"). The WITN Acquisition purchase price of approximately \$41.7 million consisted of \$40.7 million cash, \$600,000 in acquisition related costs and approximately \$400,000 in liabilities that were assumed by the Company. On April 24, 1997, the Company purchased all of the issued and outstanding common stock of GulfLink Communications, Inc. (the "GulfLink Acquisition"), which is in the transportable satellite uplink business, a business in which the Company was already engaged. The GulfLink Acquisition purchase price of approximately \$5.2 million consisted of \$4.1 million cash, \$127,000 in acquisition related costs and approximately \$1.0 million in liabilities that were assumed by the Company. During 1998, the Company consolidated all of its transportable satellite uplink operations under the name Lynqx Communications, Inc.

In September 1996, the Company acquired substantially all of the assets of WKXT-TV ("WKXT"), WCTV-TV ("WCTV"), a satellite uplink and production services business and a communications and paging business (the "First American Acquisition"). The purchase price of approximately \$183.9 million consisted of \$175.5 million cash, \$1.8 million in acquisition related costs and the assumption of approximately \$6.6 million of liabilities. Subsequent to the First American Acquisition, the Company rebranded WKXT with the call letters WVL (the "WVL"). On January 4, 1996, the Company purchased substantially all of the assets of WRDW-TV (the "Augusta Acquisition"). The purchase price of approximately \$37.2 million included assumed liabilities of approximately \$1.3 million. The First

RESULTS OF OPERATIONS OF THE COMPANY (CONTINUED)

INTRODUCTION (CONTINUED)

American Acquisition and the Augusta Acquisition are collectively referred to as the "1996 Acquisitions."

The Company sold the assets of KTVE Inc. (the "KTVE Sale"), its NBC-affiliated television station, in Monroe, Louisiana-El Dorado, Arkansas on August 20, 1996. The sales price included \$9.5 million in cash plus the amount of the accounts receivable on the date of closing to the extent collected by the buyer, to be paid to the Company within 150 days following the closing date (approximately \$829,000). The Company recognized a pre-tax gain of approximately \$5.7 million and estimated income taxes of approximately \$2.8 million in connection with the sale.

As a result of these acquisitions, the proportion of the Company's revenues derived from television broadcasting has increased significantly. The Company anticipates that the proportion of the Company's revenues derived from television broadcasting will increase further as a result of the completed acquisitions. As a result of the higher operating margins associated with the Company's television broadcasting operations, the profit contribution of these operations as a percentage of revenues, has exceeded, and is expected to continue to exceed, the profit contributions of the Company's publishing and paging operations. Set forth below, for the periods indicated, is certain information concerning the relative contributions of the Company's television broadcasting, publishing and paging operations (dollars in thousands).

	YEAR ENDED DECEMBER 31,					
	1998		1997		1996	
	AMOUNT	PERCENT OF TOTAL	AMOUNT	PERCENT OF TOTAL	AMOUNT	PERCENT OF TOTAL
BROADCASTING						
Revenues	\$91,007	70.6%	\$72,300	69.8%	\$54,981	69.3%
Operating income(1)	23,327	83.1%	19,309	82.9%	16,989	84.0%
PUBLISHING						
Revenues	\$29,330	22.8%	\$24,536	23.7%	\$22,845	28.8%
Operating income(1)	3,579	12.8%	2,810	12.1%	3,167	15.7%
PAGING						
Revenues	\$ 8,553	6.6%	\$ 6,712	6.5%	\$ 1,479	1.9%
Operating income(1)	1,161	4.1%	1,181	5.0%	71	0.3%

(1) Represents income before miscellaneous income (expense), allocation of corporate overhead, interest expense, income taxes and extraordinary charge. Operating income excludes gain on disposition of television stations of \$70.6 million recognized for the exchange of WALB in 1998 and \$5.7 million recognized for the KTVE Sale in 1996.

The Company derives its revenues from its television broadcasting, publishing and paging operations. The operating revenues of the Company's television stations are derived from broadcast advertising revenues and, to a much lesser extent, from compensation paid by the networks to the stations for broadcasting network programming. The operating revenues of the Company's publishing operations are derived from advertising, circulation and classified revenue. Paging revenue is derived primarily from the leasing and sale of pagers.

RESULTS OF OPERATIONS OF THE COMPANY (CONTINUED)

INTRODUCTION (CONTINUED)

In the Company's broadcasting operations, 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 Nielsen Media Research ("Nielsen"). 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 52% of the gross revenues of the Company's television stations for the year ended December 31, 1998, were generated from local advertising, 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 election years due to spending by political candidates, which spending typically is heaviest during the fourth quarter.

The Company's publishing operations' advertising contracts are generally entered into annually and provide for a commitment as to the volume of advertising to be purchased by an advertiser during the year. The publishing operations' advertising revenues are primarily generated from local advertising. As with the broadcasting operations, the publishing operations' revenues are generally highest in the second and fourth quarters of each year.

The Company's paging subscribers either own pagers, thereby paying solely for the use of the Company's paging services, or lease pagers, thereby paying a periodic charge for both the pagers and the paging services. The terms of the lease contracts are month-to-month, three months, six months or twelve months in duration. Paging revenues are generally equally distributed throughout the year.

The broadcasting operations' primary operating expenses are employee compensation, related benefits and programming costs. The publishing operations' primary operating expenses are employee compensation, related benefits and newsprint costs. The paging operations' primary operating expenses are employee compensation and telephone and other communications costs. In addition, the broadcasting, publishing and paging operations incur overhead expenses, such as maintenance, supplies, insurance, rent and utilities. A large portion of the operating expenses of the broadcasting, publishing and paging operations is fixed, although the Company has experienced significant variability in its newsprint costs in recent years.

RESULTS OF OPERATIONS OF THE COMPANY (CONTINUED)

INTRODUCTION (CONTINUED)

The following table sets forth certain operating data for the broadcast, publishing and paging operations for the years ended December 31, 1998, 1997 and 1996 (in thousands).

	YEAR ENDED DECEMBER 31,		
	1998	1997	1996
Operating income (1)	\$24,927	\$20,730	\$16,079
Add:			
Amortization of program license rights	4,251	3,501	2,743
Depreciation and amortization	18,117	14,519	7,663
Corporate overhead	3,063	2,528	3,219
Non-cash compensation and contribution to 401(k) plan, paid in Common Stock	476	412	1,125
Less:			
Payments for program license liabilities	(4,210)	(3,629)	(2,877)
Media Cash Flow (2)	\$46,624	\$38,061	\$27,952

(1) Operating income excludes gain on disposition of television stations of \$70.6 million recognized for the exchange of WALB in 1998 and \$5.7 million recognized for the KTVE Sale in 1996.

(2) Of Media Cash Flow, \$38.4 million, \$30.5 million and \$22.6 million was attributable to the Company's broadcasting operations in 1998, 1997 and 1996, respectively; \$5.2 million, \$4.9 million and \$5.0 million was attributable to the Company's publishing operations in 1998, 1997 and 1996, respectively; and \$3.0 million, \$2.7 million and \$401,000 was attributable to the Company's paging operations in 1998, 1997 and 1996, respectively.

"MEDIA CASH FLOW" IS DEFINED AS OPERATING INCOME, PLUS DEPRECIATION AND AMORTIZATION (INCLUDING AMORTIZATION OF PROGRAM LICENSE RIGHTS), NON-CASH COMPENSATION AND CORPORATE OVERHEAD, LESS PAYMENTS FOR PROGRAM LICENSE LIABILITIES. THE COMPANY HAS INCLUDED MEDIA CASH FLOW DATA BECAUSE SUCH DATA ARE COMMONLY USED AS A MEASURE OF PERFORMANCE FOR MEDIA COMPANIES AND ARE ALSO USED BY INVESTORS TO MEASURE A COMPANY'S ABILITY TO SERVICE DEBT. MEDIA CASH FLOW IS NOT, AND SHOULD NOT BE USED AS, AN INDICATOR OR ALTERNATIVE TO OPERATING INCOME, NET INCOME OR CASH FLOW AS REFLECTED IN THE COMPANY'S AUDITED CONSOLIDATED FINANCIAL STATEMENTS, AND IS NOT A MEASURE OF FINANCIAL PERFORMANCE UNDER GENERALLY ACCEPTED ACCOUNTING PRINCIPLES AND SHOULD NOT BE CONSIDERED IN ISOLATION OR AS A SUBSTITUTE FOR MEASURES OF PERFORMANCE PREPARED IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES.

CASH FLOW PROVIDED BY (USED IN) OPERATING, INVESTING AND FINANCING ACTIVITIES

The following table sets forth certain cash flow data for the Company for the years ended December 31, 1998, 1997 and 1996 (in thousands).

	YEAR ENDED DECEMBER 31,		
	1998	1997	1996
Cash flows provided by (used in)			
Operating activities	\$ 20,074	\$ 9,744	\$ 12,092
Investing activities	(55,299)	(57,498)	(205,068)
Financing activities	34,744	49,071	193,467

RESULTS OF OPERATIONS OF THE COMPANY (CONTINUED)

BROADCASTING, PUBLISHING AND PAGING REVENUES

As discussed in the INTRODUCTION, the Company exchanged the assets of WALB for the assets of WEAU and acquired Busse which included KOLN-TV("KOLN") and KGIN-TV ("KGIN") during 1998. The Company completed the WITN Acquisition and the GulfLink Acquisition during 1997. WEAU, KOLN and KGIN are collectively referred to as the "Busse Stations." Set forth below are the principal types of broadcasting, publishing and paging revenues earned by the Company's television stations, publishing and paging operations for the periods indicated and the percentage contribution of each of the Company's total broadcasting, publishing and paging revenues, respectively (dollars in thousands):

	YEAR ENDED DECEMBER 31,					
	1998		1997		1996	
	AMOUNT	%	AMOUNT	%	AMOUNT	%
BROADCASTING						
Net Revenues:						
Local	\$ 47,258	36.7%	\$ 40,486	39.1%	\$30,046	37.9%
National	23,824	18.5%	21,563	20.8%	15,611	19.7%
Network compensation	5,549	4.3%	4,977	4.8%	3,661	4.6%
Political	7,876	6.1%	137	0.1%	3,612	4.6%
Production and other	6,500	5.0%	5,137	5.0%	2,051	2.5%
	\$ 91,007	70.6%	\$ 72,300	69.8%	\$54,981	69.3%
PUBLISHING						
Revenues:						
Retail	\$ 14,159	11.0%	\$ 11,936	11.5%	\$11,090	14.0%
Classifieds	9,106	7.1%	7,344	7.1%	6,150	7.8%
Circulation	5,315	4.1%	4,779	4.6%	4,271	5.4%
Other	750	0.6%	477	0.5%	1,334	1.6%
	\$ 29,330	22.8%	\$ 24,536	23.7%	\$22,845	28.8%
PAGING						
Revenues:						
Paging lease, sales and service	\$ 8,553	6.6%	\$ 6,712	6.5%	\$ 1,479	1.9%
TOTAL	\$128,890	100.0%	\$103,548	100.0%	\$79,305	100.0%

YEAR ENDED DECEMBER 31, 1998 TO YEAR ENDED DECEMBER 31, 1997

REVENUES. Total revenues for the year ended December 31, 1998 increased \$25.3 million, or 24.5%, over the same period of the prior year, from \$103.5 million to \$128.9 million. This increase was primarily attributable to the net effect of (i) increased revenues resulting from the acquisition of the Busse Stations and the WITN Acquisition, (ii) increased political revenue, (iii) increased publishing revenues and (iv) increased paging revenues partially offset by decreased revenues resulting from the disposition of WALB.

Broadcast net revenues increased \$18.7 million, or 25.9%, over the same period of the prior year, to \$91.0 million from \$72.3 million. The acquisition of the Busse Stations and the WITN Acquisition accounted for \$9.3 million and \$5.5 million of the broadcast net revenue increase, respectively. On a pro forma basis, assuming the Busse-WALB Transactions had been effective on January 1, 1997, broadcast net revenues for the Busse Stations for the year ended December 31, 1998, increased \$1.9 million, or 10.1%, over the same period of the prior year, to \$20.9 million from \$19.0 million. On a pro forma basis,

YEAR ENDED DECEMBER 31, 1998 TO YEAR ENDED DECEMBER 31, 1997 (CONTINUED)

assuming the WITN Acquisition had been effective on January 1, 1997, broadcast net revenues for WITN for the year ended December 31, 1998 increased \$939,000, or 12.0%, over the same period of the prior year, to \$8.8 million from \$7.8 million. Broadcast net revenues, excluding the acquisition of the Busse Stations, the WITN Acquisition and the GulfLink Acquisition and excluding the operating results of WALB, increased \$6.1 million, or 10.6%, over the same period of the prior year, to \$63.6 million from \$57.5 million. This increase was due primarily to an increase in political advertising revenue of \$5.4 million. The disposition of WALB resulted in a decrease in net broadcast revenue of approximately \$3.3 million.

Publishing revenues increased \$4.8 million, or 19.5%, over the same period of the prior year, to \$29.3 million from \$24.5 million. The increase in publishing revenues was due primarily to an increase in retail advertising, classified advertising, circulation and other revenue of \$2.2 million, \$1.8 million, \$536,000 and \$273,000, respectively. The increase in retail advertising and classified advertising revenue was due primarily to lineage increases.

Paging revenue increased \$1.8 million or 27.4%, over the same period of the prior year, to \$8.6 million from \$6.7 million. The increase was attributable primarily to an increase in the number of pagers in service. The Company had approximately 86,000 pagers and 67,000 pagers in service at December 31, 1998 and 1997, respectively.

OPERATING EXPENSES. Operating expenses for the year ended December 31, 1998 increased \$21.1 million, or 25.5%, over the same period of the prior year, to \$104.0 million from \$82.8 million, due primarily to the acquisition of the Busse Stations, the WITN Acquisition, increased expenses at the Company's existing television stations (exclusive of the Busse Stations and WALB) and the expense associated with the increase in circulation at the Gwinnett Daily Post. The acquisition of the Busse Stations, the WITN Acquisition, increased expenses at existing television stations and the cost associated with the increase in circulation at the Gwinnett Daily Post accounted for \$4.1 million, \$3.4 million, \$4.1 million and \$4.1 million (exclusive of depreciation and amortization), respectively, of the operating expense increase. The increase in operating expenses was partially offset by the disposition of WALB which reduced operating expenses by approximately \$1.5 million.

Broadcast expenses increased \$11.0 million, or 26.2%, over the year ended December 31, 1998, to \$53.0 million from \$42.0 million. The acquisition of the Busse Stations and the WITN Acquisition accounted for \$4.1 million and \$3.4 million of the broadcast expenses increase, respectively. On a pro forma basis, assuming the Busse-WALB Transactions had been effective on January 1, 1997, broadcast expenses for the Busse Stations for the year ended December 31, 1998, increased \$802,000, or 9.2%, over the same period of the prior year, to \$9.5 million from \$8.7 million. On a pro forma basis, assuming the WITN Acquisition had been effective on January 1, 1997, broadcast expenses for WITN for the year ended December 31, 1998 increased \$668,000, or 14.5%, over the same period of the prior year, to \$5.3 million from \$4.6 million. Broadcast expenses, excluding the acquisition of the Busse Stations, the WITN Acquisition and the GulfLink Acquisition and excluding the operating results of WALB, increased \$4.1 million, or 11.9%, over the same period of the prior year, to \$38.6 million from \$34.4 million. This increase was due primarily to an increase in payroll expense and other expenses of \$2.6 million and \$1.3 million, respectively. The increase in broadcast expenses was partially offset by the disposition of WALB which reduced broadcast expenses by approximately \$1.5 million.

Publishing expenses for the year ended December 31, 1998 increased \$4.4 million, or 22.5%, from the same period of the prior year, to \$24.2 million from \$19.8 million. This increase resulted primarily from an increase in the expense associated with the increase in circulation at the Gwinnett Daily Post to

YEAR ENDED DECEMBER 31, 1998 TO YEAR ENDED DECEMBER 31, 1997 (CONTINUED)

64,000 at December 31, 1998 from 49,000 at December 31, 1997.

Paging expenses increased \$1.6 million or 38.7%, over the same period of the prior year, to \$5.6 million from \$4.1 million. The increase was attributable primarily to an increase in payroll and other costs associated with an increase in the number of pagers in service.

Corporate and administrative expenses increased \$535,000 or 21.1%, over the same period of the prior year, to \$3.1 million from \$2.5 million. This increase was primarily attributable to increased payroll expense.

DEPRECIATION AND AMORTIZATION. Depreciation of property and equipment and amortization of intangible assets was \$18.1 million for the year ended December 31, 1998, as compared to \$14.5 million for the same period of the prior year, an increase of \$3.6 million, or 24.8%. This increase was primarily the result of higher depreciation and amortization costs resulting from the WITN Acquisition and the acquisition of the Busse Stations.

GAIN ON DISPOSITION OF TELEVISION STATIONS. The Company recognized a pre-tax gain of approximately \$70.6 million and estimated deferred income taxes of approximately \$27.5 million in connection with the exchange of WALB.

INTEREST EXPENSE. Interest expense increased \$3.6 million, or 16.4%, to \$25.5 million for the year ended December 31, 1998 from \$21.9 million for the year ended December 31, 1997. This increase was attributable primarily to increased levels of debt resulting from the financing of the acquisition of the Busse Stations and the WITN Acquisition.

INCOME TAX EXPENSE (BENEFIT). Income tax expense for the year ended December 31, 1998 primarily reflects the provision of approximately \$27.5 million of deferred income taxes recognized in conjunction with the exchange of WALB.

NET INCOME (LOSS) AVAILABLE TO COMMON STOCKHOLDERS. Net income available to common stockholders of the Company was \$40.3 million for the year ended December 31, 1998, as compared with a net loss available to common stockholders of \$2.8 million for the same period of the prior year, reflecting the \$43.1 million gain net of related tax provisions on the exchange of WALB.

YEAR ENDED DECEMBER 31, 1997 TO YEAR ENDED DECEMBER 31, 1996

REVENUES. Total revenues for the year ended December 31, 1997, increased \$24.2 million, or 30.6%, over the year ended December 31, 1996, from \$79.3 million to \$103.5 million. This increase was attributable to the net effect of (i) increased revenues as a result of the WITN Acquisition, the GulfLink Acquisition and the First American Acquisition, (ii) increases in total non-political revenues of the Company (excluding the WITN Acquisition, the GulfLink Acquisition and the First American Acquisition) and (iii) increased publishing revenue, all of which were partially offset by decreased political revenues and decreased revenues as a result of the KTVE Sale. The net increase in revenue due to the WITN Acquisition, the GulfLink Acquisition and the First American Acquisition less the effect of the KTVE Sale was \$23.4 million, or 96.7% of the \$24.2 million increase.

Broadcast net revenues increased \$17.3 million, or 31.5%, over the prior year, from \$55.0 million to \$72.3 million. The First American Acquisition, the WITN Acquisition and the GulfLink Acquisition accounted for \$16.5 million, \$3.3 million and \$1.4 million, respectively, of the broadcast net revenue increase. On a pro forma basis, assuming the First American Acquisition had been effective on January 1,

1996, broadcast net revenues for the First American Acquisition for the year ended December 31, 1997, decreased \$700,000, or 3.0%, over the year ended December 31, 1996, from \$23.9 million to \$23.2 million. On a pro forma basis, assuming the WITN Acquisition had been effective on January 1, 1996, broadcast net revenues for the WITN Acquisition for the year ended December 31, 1997, decreased \$600,000, or 7.0%, over the year ended December 31, 1996, from \$8.4 million to \$7.8 million. On a pro forma basis, political revenue for the First American Acquisition and the WITN Acquisition decreased \$1.3 million and \$650,000, respectively, over the prior year. The KTVE Sale resulted in a decrease in broadcast net revenues of \$3.0 million. Broadcast net revenues, excluding the First American Acquisition, the WITN Acquisition and the GulfLink Acquisition and the operating results of KTVE, decreased \$800,000, or 1.8%, over the prior year. This decrease of \$800,000 resulted primarily from decreased political spending of \$3.1 million partially offset by increased local advertising spending and national advertising spending of \$1.5 million and \$600,000, respectively.

Publishing revenues increased \$1.7 million, or 7.4%, over the prior year, from \$22.8 million to \$24.5 million. Retail advertising, classified advertising and circulation revenue increased approximately \$850,000, \$1.2 million and \$500,000, respectively, which was partially offset by a decrease in other revenue of \$860,000. The increase in retail advertising and classified advertising was primarily the result of increased rates partially offset by decreased lineage. The increase in circulation revenue was attributable primarily to the increase in subscribers at the Gwinnett Daily Post from 13,000 at December 31, 1996, to 49,000 at December 31, 1997. The increases in retail advertising, classified advertising and circulation revenue were offset by a decrease of \$800,000 in commercial printing and events marketing revenue.

Paging revenue increased \$5.2 million, or 353.8%, from \$1.5 million to \$6.7 million primarily due to the First American Acquisition. On a pro forma basis, assuming the First American Acquisition had been effective January 1, 1996, paging revenue for the year ended December 31, 1997, increased \$1.2 million, or 21.6%, over the year ended December 31, 1996, from \$5.5 million to \$6.7 million. The increase was attributable primarily to an increase in the number of units in service. The Company had approximately 67,000 units in service at December 31, 1997, and 49,500 units in service at December 31, 1996.

OPERATING EXPENSES. Operating expenses for the year ended December 31, 1997, increased \$19.6 million, or 31.0%, over the year ended December 31, 1996, from \$63.2 million to \$82.8 million. This increase was attributable to the net effect of (i) increased expenses resulting from the WITN Acquisition, the GulfLink Acquisition and the First American Acquisition, (ii) increased publishing expenses, (iii) decreased broadcast expense of the Company (excluding the WITN Acquisition, the GulfLink Acquisition, the First American Acquisition and the effects of the KTVE Sale), (iv) decreased expenses resulting from the KTVE Sale and (v) decreased non-cash compensation. The net increase in operating expenses (exclusive of depreciation and amortization) due to the WITN Acquisition, the GulfLink Acquisition and the First American Acquisition less the effects of the KTVE Sale was \$13.7 million.

Broadcast expenses increased \$9.5 million, or 29.4%, over the prior year, from approximately \$32.4 million to approximately \$42.0 million. The increase was attributable primarily to the WITN Acquisition, the GulfLink Acquisition and the First American Acquisition partially offset by the KTVE Sale. The First American Acquisition, the WITN Acquisition and the GulfLink Acquisition accounted for \$9.9 million, \$1.9 million and \$1.2 million, respectively, of the broadcast expense increase. On a pro forma basis, assuming the First American Acquisition had been effective on January 1, 1996, broadcast expense for the First American Acquisition for the year ended December 31, 1997, increased \$1.2 million, or 9.8%, over the year ended December 31, 1996, from \$12.2 million to \$13.4 million. On a pro forma basis, assuming the WITN Acquisition had been effective on January 1, 1996, broadcast expense for the WITN Acquisition for the year ended December 31, 1997, decreased \$200,000, or 4.2%, over the year ended

YEAR ENDED DECEMBER 31, 1997 TO YEAR ENDED DECEMBER 31, 1996 (CONTINUED)

December 31, 1996, from \$4.8 million to \$4.6 million. The KTVE Sale resulted in a decrease in broadcast expenses of \$2.2 million. Broadcast expenses, excluding the results of the WITN Acquisition, the GulfLink Acquisition and the First American Acquisition and the KTVE Sale, decreased \$1.3 million, or 4.9%, as a result of lower payroll and other costs.

Publishing expenses increased \$1.8 million, or 10.1%, over the prior year, from approximately \$17.9 million to approximately \$19.8 million. This increase resulted primarily from an increase in expenses associated with an expansion of the news product and circulation at one of the Company's properties partially offset by a decrease in work force related costs and improved newsprint pricing. Average newsprint costs decreased approximately 14.4% while newsprint consumption increased approximately 27.7%.

Paging expenses increased \$3.0 million, or 275.8%, over the prior year, from \$1.1 million to \$4.1 million primarily due to the First American Acquisition. On a pro forma basis, assuming the First American Acquisition had been effective January 1, 1996, paging expenses for the year ended December 31, 1997, increased \$220,000, or 5.7%, over the year ended December 31, 1996, from \$3.8 million to \$4.1 million. This increase was attributable primarily to increased payroll expenses.

Corporate and administrative expenses decreased \$700,000, or 21.5%, over the prior year, from \$3.2 million to \$2.5 million. This decrease was attributable primarily to a reduction of compensation expense at the corporate level.

DEPRECIATION AND AMORTIZATION. Depreciation of property and equipment and amortization of intangible assets was \$14.5 million for the year ended December 31, 1997, compared to \$7.7 million for the prior year, an increase of \$6.8 million, or 89.5%. This increase was primarily the result of higher depreciation and amortization costs related to the WITN Acquisition, the GulfLink Acquisition and the First American Acquisition.

NON-CASH COMPENSATION. Non-cash compensation for the year ended December 31, 1996, resulted from the Company's employment agreement with its former President, Ralph W. Gabbard, who died unexpectedly in September 1996.

GAIN ON DISPOSITION OF TELEVISION STATIONS. During 1996, the Company recognized a pre-tax gain of approximately \$5.7 million as a result of the KTVE Sale.

INTEREST EXPENSE. Interest expense increased \$10.2 million, or 87.0%, from \$11.7 million for the year ended December 31, 1996, to \$21.9 million for the year ended December 31, 1997. This increase was attributable primarily to increased levels of debt resulting from the financing of the WITN Acquisition, the GulfLink Acquisition and the First American Acquisition.

INCOME TAX EXPENSE (BENEFIT). Income tax expense for the year ended December 31, 1996 primarily reflects the provision of approximately \$2.8 million of income taxes recognized in conjunction with the KTVE Sale.

EXTRAORDINARY CHARGE: An extraordinary charge of \$5.3 million (\$3.2 million after taxes) was recorded for the year ended December 31, 1996, in connection with the early retirement of the Company's former bank credit facility and the \$25.0 million senior secured note with an institutional investor.

YEAR ENDED DECEMBER 31, 1997 TO YEAR ENDED DECEMBER 31, 1996 (CONTINUED)

NET INCOME (LOSS) AVAILABLE TO COMMON STOCKHOLDERS. Net loss available to common stockholders for the Company was \$2.8 million for the year ended December 31, 1997, compared with net income available to common stockholders of \$2.1 million for the year ended December 31, 1996, a decrease of \$4.9 million, or 231.2%.

INTEREST RATE RISK

Based on the Company's floating rate debt outstanding at December 31, 1998, a 100 basis point increase in market rates would increase interest expense and decrease income before income taxes by approximately \$1.1 million. The amount was determined by calculating the effect of the hypothetical interest rate on the Company's floating rate debt.

The fair market value of long-term fixed interest rate debt is also subject to interest rate risk. Generally, the fair market value of fixed interest rate debt will increase as interest rates fall and decrease as interest rates rise. The estimated fair value of the Company's total long-term fixed rate debt at December 31, 1998 was approximately \$170.4 million which exceeded its carrying value by approximately \$10.4 million. A hypothetical 100 basis point decrease in the prevailing interest rates at December 31, 1998 would result in an increase in fair value of total long-term debt by approximately \$7.0 million. Fair market values are determined from quoted market prices where available or based on estimates made by the investment bankers.

LIQUIDITY AND CAPITAL RESOURCES

The Company's working capital was \$10.2 million and \$10.1 million at December 31, 1998, and 1997, respectively. The Company's cash provided from operations was \$20.1 million, \$9.7 million and \$12.1 million in 1998, 1997 and 1996, respectively. Management believes that current cash balances, cash flows from operations and the available funds under its Senior Credit Facility will be adequate to provide for the Company's capital expenditures, debt service, cash dividends and working capital requirements. The agreement pursuant to which the Senior Credit Facility was issued contains certain restrictive provisions, which, among other things, limit additional indebtedness and require minimum levels of cash flows. Additionally, the effective interest rate of the Senior Credit Facility can be changed based upon the Company's maintenance of certain operating ratios as defined by the Senior Credit Facility, not to exceed the lender's prime rate plus 0.5% or LIBOR plus 2.25%. The Company's 10 5/8 % Senior Subordinated Notes due 2006 contain restrictive provisions similar to the provisions of the Senior Credit Facility. The amount borrowed by the Company and the amount available to the Company under the Senior Credit Facility at December 31, 1998, was \$109.5 million and \$90.5 million, respectively.

The Company's cash used in investing activities was \$55.3 million, \$57.5 million and \$205.1 million in 1998, 1997 and 1996, respectively. The amount of cash used in 1998 resulted primarily from the acquisition of Busse partially offset by the exchange of WALB. The decrease of \$147.6 million from 1996 to 1997 was primarily due to the net impact of the WITN Acquisition and the GulfLink Acquisition in 1997 offset by the 1996 Acquisitions in 1996.

The Company was provided \$34.7 million, \$49.1 million and \$193.5 million in cash by financing activities in 1998, 1997 and 1996, respectively. In 1998, net cash provided by financing activities resulted primarily from borrowings on long-term debt (net of repayments) of \$43.5 million partially offset by redemptions of preferred stock of \$7.6 million. In 1997, the decrease in cash provided by financing activities resulted primarily from the funding obtained for the 1996 Acquisitions in 1996 partially offset by the borrowings for the WITN Acquisition and the GulfLink Acquisition, purchase of treasury stock and increased payments on long-term debt in 1997. The cash provided in 1996 resulted primarily from (i)

LIQUIDITY AND CAPITAL RESOURCES (CONTINUED)

the issuance of \$160.0 million principal amount of 10 5/8 % Senior Subordinated Notes due 2006, (ii) borrowings under the Company's revolving credit agreements, (iii) public sale of Class B Common Stock and (iv) the private placement of preferred stock, partially offset by the repayment of certain long-term debt and the purchase of Class B Common Stock by the Company.

During 1998, 1997 and 1996, the Company purchased 30,750 Class A Common Stock Shares, 259,350 Class A Common Stock shares and 258,450 Class B Common Stock shares, respectively. The 1998, 1997 and 1996 treasury shares were purchased at prevailing market prices with an average effective price of \$18.95, \$13.33 and \$10.60 per share, respectively.

Effective July 31, 1998, the Senior Credit Facility was modified to increase the committed credit limit of \$125.0 million to \$200.0 million. This modification also allows for an additional uncommitted \$100.0 million in available credit which is in addition to the committed \$200.0 million credit limit. This \$100.0 million in uncommitted available credit can be borrowed by the Company only after approval of the bank consortium. The modification also extended the maturity date from June 30, 2004 to June 30, 2005. The modification required a one-time fee of approximately \$750,000.

As discussed in the INTRODUCTION, on July 31, 1998, the Company completed the Busse-WALB Transactions. These transactions resulted in a net increase in long-term debt of approximately \$43.4 million. At December 31, 1998, the Company had approximately \$109.5 million borrowed under the Senior Credit Facility with approximately \$90.5 million available under the agreement. The interest rate on the balance outstanding was based on Prime and a spread over LIBOR of 1.75%.

Subject to certain limitations, holders of the Series A Preferred Stock are entitled to receive, when, as and if declared by the Board of Directors, out of funds of the Company legally available for payment, cumulative cash dividends at an annual rate of \$800 per share. Subject to certain limitations, holders of the Series B Preferred Stock are entitled to receive, when, as and if declared by the Board of Directors, out of the funds of the Company legally available for payment, cumulative dividends at an annual rate of \$600 per share, except that the Company at its option may pay such dividends in cash or in additional shares of Series B Preferred Stock valued, for the purpose of determining the number of shares (or fraction thereof) of such Series B Preferred Stock to be issued, at \$10,000 per share.

The Company regularly enters into program contracts for the right to broadcast television programs produced by others and program commitments for the right to broadcast programs in the future. Such programming commitments are generally made to replace expiring or canceled program rights. Payments under such contracts are made in cash or the concession of advertising spots for the program provider to resell, or a combination of both. At December 31, 1998, payments on program license liabilities due in 1999, which will be paid with cash from operations, were approximately \$4.6 million.

In 1998, the Company made \$9.3 million in capital expenditures, relating primarily to the broadcasting and publishing operations, and paid \$4.2 million for program broadcast rights. The Company anticipates making \$10.0 million in capital expenditures in 1999.

In connection with the First American Acquisition, the Federal Communications Commission (the "FCC") ordered the Company to divest itself of WALB and WJHG-TV ("WJHG") by March 31, 1997 to comply with regulations governing common ownership of television stations with overlapping service areas. The FCC is currently reexamining these regulations, and if it revises them in accordance with the interim policy it has adopted, divestiture of WJHG would not be required. Accordingly, the Company requested and in July of 1997 received an extension of the divestiture deadline with regard to WJHG conditioned upon the outcome of the rulemaking proceedings. It can not be determined when the FCC

LIQUIDITY AND CAPITAL RESOURCES (CONTINUED)

will complete its rulemaking on this subject. On July 31, 1998, the assets of WALB were exchanged for the assets of WEAU. This exchange transaction satisfied the FCC's divestiture requirement for WALB.

The Company and its subsidiaries file a consolidated federal income tax return and such state or local tax returns as are required. As of December 31, 1998, the Company anticipates that it will generate taxable operating losses for the foreseeable future.

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

On March 1, 1999, the Company acquired substantially all of the assets of THE GOSHEN NEWS from News Printing Company, Inc. and affiliates thereof, for aggregate cash consideration of approximately \$16.7 million including a non-compete agreement. THE GOSHEN NEWS is a 17,000 circulation afternoon newspaper published Monday through Saturday and serves Goshen, Indiana and surrounding areas. The Company funded this acquisition through its Senior Credit Facility.

On January 28, 1999, Bull Run Corporation ("Bull Run"), a principal stockholder of the Company, acquired 301,119 shares of the outstanding common stock of Sarkes Tarzian, Inc. ("Tarzian") from the Estate of Mary Tarzian (the "Estate") for \$10.0 million. The acquired shares (the "Tarzian Shares") represent 33.5% of the total outstanding common stock of Tarzian (both in terms of the number of shares of common stock outstanding and in terms of voting rights), but such investment represents 73% of the equity of Tarzian for purposes of dividends as well as distributions in the event of any liquidation, dissolution or other termination of Tarzian. Tarzian has filed a complaint in the United States District Court for the Southern District of Indiana, claiming that it had a binding contract with the Estate to purchase the Tarzian Shares from the Estate prior to Bull Run's purchase of the shares, and requests judgment providing that the Estate be required to sell the Tarzian Shares to Tarzian. Bull Run believes that a binding contract between Tarzian and the Estate did not exist, prior to Bull Run's purchase of the Tarzian Shares from the Estate, and in any case, Bull Run's purchase agreement with the Estate provides that in the event that a court of competent jurisdiction awards title to the Tarzian Shares to a person or entity other than Bull Run, the purchase agreement is rescinded and the Estate is required to pay Bull Run the full \$10.0 million purchase price, plus interest. Tarzian owns and operates two television stations and four radio stations: WRCB-TV Channel 3 in Chattanooga, Tennessee, an NBC affiliate; KTVN-TV Channel 2 in Reno, Nevada, a CBS affiliate; WGCL-AM and WTTS-FM in Bloomington, Indiana; and WAJI-FM and WLDE-FM in Fort Wayne, Indiana. The Chattanooga and Reno markets rank as the 87th and the 108th largest television markets in the United States, respectively, as ranked by A. C. Nielsen Company.

The Company has executed an option agreement with Bull Run, whereby the Company has the option of acquiring the Tarzian investment from Bull Run. Upon exercise of the option, the Company will pay Bull Run an amount equal to Bull Run's purchase price for the Tarzian investment and related costs. The option agreement currently expires on May 31, 1999; however, the Company may extend the option period at an established fee. In connection with the option agreement, the Company granted to Bull Run warrants to purchase up to 100,000 shares of the Company's Class B Common Stock at \$13.625 per share. The warrants vest immediately upon the Company's exercise of its option to purchase the Tarzian investment. Neither Bull Run's investment nor the Company's potential investment is presently attributable under the ownership rules of the FCC. If the Company successfully exercises the option agreement, the Company plans to fund the acquisition through its Senior Credit Facility.

The problems created by systems that are unable to interpret dates accurately after December 31, 1999 is referred to as the "Year 2000 Issue." Many software programs have historically categorized the "year" in a two-digit format rather than a four-digit format. As a result, those computer programs that have time-sensitive software may recognize a date using "00" as the year 1900 rather than the year 2000. The Year 2000 Issue creates potential risks for the Company, including potential problems in the Company's Information Technology ("IT") and non-IT systems. The Year 2000 Issue could cause a system failure, miscalculations or disruptions of operations, including, among other things, a temporary inability to process transactions, send invoices, or engage in similar normal business activities. The Company may also be exposed to risks from third parties who fail to adequately address their own Year 2000 Issue.

The Company has implemented a multiphase program designed to address the Year 2000 Issue. Each phase of this program and its state of completion is described below:

ASSESSMENT: This phase of the program includes the identification of the Company's IT and non-IT systems. After these systems have been identified, they are evaluated to determine whether they will correctly recognize dates after December 31, 1999 ("Year 2000 Compliant"). If it is determined that they are not Year 2000 Compliant, they are replaced or modified in the REMEDIATION phase of the program. The majority of the Company's systems are non-proprietary. The Company is in the process of obtaining from each system vendor a written or oral representation as to each significant system's status of compliance. The Company has commenced an ongoing process of contacting suppliers and other key third parties to assess their Year 2000 Compliance status. It appears that all of these third parties are currently Year 2000 Compliant or they plan to be Year 2000 Compliant prior to December 31, 1999. This phase is substantially complete and the Company has identified the majority of the systems that need to be replaced.

REMIATION: For those systems which are not Year 2000 Compliant, a plan is derived to make the systems Year 2000 Compliant. These solutions have included modification or replacement of existing systems. The REMEDIATION phase is approximately 50% complete.

TESTING: Test remediated systems to assure normal function when placed in their original operating environment and further test for Year 2000 Compliance. The TESTING phase of the program is approximately 25% complete and the Company anticipates that it will be completed by September 30, 1999.

CONTINGENCY: As a result of the Company's Year 2000 Compliance program, the Company does not believe that it has significant risk resulting from this issue. However, the Company is in the process of developing contingency plans for the possibility that one of its systems or one of a third party's systems may not be Year 2000 Compliant. The Company believes that the most reasonable likely worst case scenario is a temporary loss of functionality at one or more of the Company's operating units. In the unlikely event that this were to occur, the Company would experience decreased revenue and slightly higher operating costs at the affected location. However, due to the decentralized nature of the Company's operations, it is not likely that all locations would be affected by a single non-functioning system.

The Company does not presently believe that the estimated total Year 2000 project cost will exceed \$750,000. Most of this cost will be realized over the estimated useful lives of the new hardware and

software; however, any third party consulting fees would be expensed in the period the services are rendered. To date, the Company has identified several minor systems that are not Year 2000 Compliant and these systems are in the process of being replaced. However, the Company has not incurred significant expenses associated with the Year 2000 Issue. As of December 31, 1998, no IT projects have been deferred due to the Company's efforts related to the Year 2000 Issue.

The costs of the project and the date on which the Company believes it will complete the Year 2000 modifications are based on management's best estimates, which were derived utilizing numerous assumptions of future events, including the continued availability of certain resources and other factors. However, there can be no guarantee that these estimates will be achieved and actual results could differ materially from those anticipated. Specific factors that might cause such material differences include, but are not limited to, the availability and cost of personnel trained in this area, the ability to locate and correct all relevant computer codes, and similar uncertainties.

CAUTIONARY STATEMENTS FOR PURPOSES OF THE "SAFE HARBOR" PROVISIONS OF THE PRIVATE SECURITIES LITIGATION REFORM ACT

This annual report on Form 10-K contains "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. When used in this report, the words "believes," "expects," "anticipates," "estimates" and similar words and expressions are generally intended to identify forward-looking statements. Statements that describe the Company'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 the Company 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 the Company operates, (ii) competitive pressures in the markets in which the Company operates, (iii) the effect of future legislation or regulatory changes on the Company's operations and (iv) other factors described from time to time in the Company's filings with the Securities and Exchange Commission. The forward-looking statements included in this report are made only as of the date hereof. The Company undertakes no obligation to update such forward-looking statements to reflect subsequent events or circumstances.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Response to this item is included in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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Audited Consolidated Financial Statements of Gray Communications Systems, Inc.	
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REPORT OF INDEPENDENT AUDITORS

Board of Directors and Stockholders
Gray Communications Systems, Inc.

We have audited the accompanying consolidated balance sheets of Gray Communications Systems, Inc., as of December 31, 1998 and 1997 and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended December 31, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Gray Communications Systems, Inc., at December 31, 1998 and 1997, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles.

Ernst & Young LLP

Atlanta, Georgia
January 26, 1999

GRAY COMMUNICATIONS SYSTEMS, INC.
CONSOLIDATED BALANCE SHEETS

	DECEMBER 31,	
	1998	1997
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,886,723	\$ 2,367,300
Trade accounts receivable, less allowance for doubtful accounts of \$1,212,000 and \$1,253,000, respectively	22,859,119	19,527,316
Recoverable income taxes	1,725,535	2,132,284
Inventories	1,191,284	846,891
Current portion of program broadcast rights	3,226,359	2,850,023
Other current assets	741,007	968,180
	-----	-----
Total current assets	31,630,027	28,691,994
Property and equipment (NOTES B AND C):		
Land	2,196,021	889,696
Buildings and improvements	12,812,112	11,951,700
Equipment	65,226,835	52,899,547
	-----	-----
	80,234,968	65,740,943
Allowance for depreciation	(28,463,460)	(23,635,256)
	-----	-----
	51,771,508	42,105,687
Other assets:		
Deferred loan costs (NOTE C)	8,235,432	8,521,356
Goodwill and other intangibles (NOTE B)	376,014,972	263,425,447
Other	1,322,483	2,306,143
	-----	-----
	385,572,887	274,252,946
	-----	-----
	\$468,974,422	\$345,050,627
	=====	=====

GRAY COMMUNICATIONS SYSTEMS, INC.
CONSOLIDATED BALANCE SHEETS (CONTINUED)

	DECEMBER 31,	
	1998	1997
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Trade accounts payable (includes \$880,000 and \$850,000 payable to Bull Run Corporation, respectively)	\$ 2,540,770	\$ 3,321,903
Employee compensation and benefits	5,195,777	3,239,694
Accrued expenses	1,903,226	2,265,725
Accrued interest	5,608,134	4,533,366
Current portion of program broadcast obligations	3,070,598	2,876,060
Deferred revenue	2,632,564	1,966,166
Current portion of long-term debt	430,000	400,000
	-----	-----
Total current liabilities	21,381,069	18,602,914
Long-term debt (NOTES B AND C)	270,225,255	226,676,377
Other long-term liabilities:		
Program broadcast obligations, less current portion	735,594	617,107
Supplemental employee benefits (NOTE D)	1,128,204	1,161,218
Deferred income taxes (NOTE G)	44,147,642	1,203,847
Other acquisition related liabilities (NOTE B)	4,653,788	4,494,016
	-----	-----
	50,665,228	7,476,188
Commitments and contingencies (NOTES B, C AND I)		
Stockholders' equity (NOTES B, C AND E)		
Serial Preferred Stock, no par value; authorized 20,000,000 shares; issued and outstanding 1,350 and 2,060 shares, respectively (\$13,500,000 and \$20,600,000 aggregate liquidation value, respectively)	13,500,000	20,600,000
Class A Common Stock, no par value; authorized 15,000,000 shares; issued 7,961,574 shares, respectively	10,683,709	10,358,031
Class B Common Stock, no par value; authorized 15,000,000 shares; issued 5,273,046 shares, respectively	66,792,385	66,397,804
Retained earnings	45,737,601	6,603,191
	-----	-----
	136,713,695	103,959,026
Treasury Stock at cost, Class A Common, 1,129,532 and 1,172,882 shares, respectively	(8,578,682)	(9,011,369)
Treasury Stock at cost, Class B Common, 135,080 and 250,185 shares, respectively	(1,432,143)	(2,652,509)
	-----	-----
	126,702,870	92,295,148
	-----	-----
	\$468,974,422	\$345,050,627
	=====	=====

See accompanying notes.

GRAY COMMUNICATIONS SYSTEMS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

	YEAR ENDED DECEMBER 31,		
	1998	1997	1996
<hr/>			
Operating revenues:			
Broadcasting (less agency commissions)	\$ 91,006,506	\$ 72,300,105	\$54,981,317
Publishing	29,330,080	24,536,348	22,845,274
Paging	8,552,936	6,711,426	1,478,608
	<hr/>	<hr/>	<hr/>
	128,889,522	103,547,879	79,305,199
Expenses:			
Broadcasting	52,967,142	41,966,493	32,438,405
Publishing	24,197,169	19,753,387	17,949,064
Paging	5,618,421	4,051,359	1,077,667
Corporate and administrative	3,062,995	2,528,461	3,218,610
Depreciation	9,690,757	7,800,217	4,077,696
Amortization of intangible assets	8,425,821	6,718,302	3,584,845
Non-cash compensation paid in common stock (NOTE D)	-0-	-0-	880,000
	<hr/>	<hr/>	<hr/>
	103,962,305	82,818,219	63,226,287
	<hr/>	<hr/>	<hr/>
	24,927,217	20,729,660	16,078,912
Gain on disposition of television stations (net of \$780,000 paid to Bull Run Corporation in 1998) (NOTE B)	70,572,128	-0-	5,671,323
Miscellaneous income and (expense), net	(241,522)	(30,851)	33,259
	<hr/>	<hr/>	<hr/>
	95,257,823	20,698,809	21,783,494
Interest expense	25,454,476	21,861,267	11,689,053
	<hr/>	<hr/>	<hr/>
INCOME (LOSS) BEFORE INCOME TAXES AND EXTRAORDINARY CHARGE	69,803,347	(1,162,458)	10,094,441
Federal and state income taxes (NOTE G)	28,143,981	240,000	4,416,000
	<hr/>	<hr/>	<hr/>
INCOME (LOSS) BEFORE EXTRAORDINARY CHARGE	41,659,366	(1,402,458)	5,678,441
Extraordinary charge on extinguishment of debt, net of applicable income tax benefit of \$2,157,000 (NOTE C)	-0-	-0-	3,158,960
	<hr/>	<hr/>	<hr/>
NET INCOME (LOSS)	41,659,366	(1,402,458)	2,519,481
Preferred dividends (NOTE E)	1,317,830	1,409,690	376,849
	<hr/>	<hr/>	<hr/>
NET INCOME (LOSS) AVAILABLE TO COMMON STOCKHOLDERS	\$40,341,536	(2,812,148)	\$2,142,632
	<hr/>	<hr/>	<hr/>
Average outstanding common shares-basic	11,922,852	11,852,546	8,097,654
Stock compensation awards	481,443	-0-	340,668
	<hr/>	<hr/>	<hr/>
Average outstanding common shares-diluted	12,404,295	11,852,546	8,438,322
	<hr/>	<hr/>	<hr/>
Basic earnings per common share:			
Income (loss) before extraordinary charge available to common stockholders	\$ 3.38	(0.24)	\$ 0.65
Extraordinary charge	-0-	-0-	(0.39)
	<hr/>	<hr/>	<hr/>
NET INCOME (LOSS) AVAILABLE TO COMMON STOCKHOLDERS	\$ 3.38	\$ (0.24)	\$ 0.26
	<hr/>	<hr/>	<hr/>
Diluted earnings per common share:			
Income (loss) before extraordinary charge available to common stockholders	\$ 3.25	(0.24)	\$ 0.62
Extraordinary charge	-0-	-0-	(0.37)
	<hr/>	<hr/>	<hr/>
NET INCOME (LOSS) AVAILABLE TO COMMON STOCKHOLDERS	\$ 3.25	\$ (0.24)	\$ 0.25
	<hr/>	<hr/>	<hr/>

See accompanying notes.

GRAY COMMUNICATIONS SYSTEMS, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

GRAY COMMUNICATIONS SYSTEMS, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	PREFERRED SHARES	STOCK AMOUNT	CLASS A COMMON SHARES	CLASS A COMMON STOCK AMOUNT	CLASS B COMMON SHARES	CLASS B COMMON STOCK AMOUNT	RETAINED EARNINGS
Balance at December 31, 1995	-0-	\$ -0-	7,624,134	\$ 6,795,976	-0-	\$ -0-	\$ 8,827,906
Net Income	-0-	-0-	-0-	-0-	-0-	-0-	2,519,481
Common Stock Cash Dividends:							
Class A (\$0.05 per share)	-0-	-0-	-0-	-0-	-0-	-0-	(357,598)
Class B (\$0.01 per share)	-0-	-0-	-0-	-0-	-0-	-0-	(69,000)
Purchase of Class B Common Stock (NOTE E)	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Issuance of Class A Common Stock (NOTES E, F AND H):							
401(k) Plan	-0-	-0-	19,837	262,426	-0-	-0-	-0-
Directors' Stock Plan	-0-	-0-	33,750	228,749	-0-	-0-	-0-
Non-qualified Stock Plan	-0-	-0-	55,275	358,417	-0-	-0-	-0-
Preferred Stock Dividends	-0-	-0-	-0-	-0-	-0-	-0-	(376,849)
Issuance of Class A Common Stock Warrants (NOTES B AND E)	-0-	-0-	-0-	2,600,000	-0-	-0-	-0-
Issuance of Series A Preferred Stock in exchange for Subordinated Note (NOTES B AND E)	1,000	10,000,000	-0-	(2,383,333)	-0-	-0-	-0-
Issuance of Series B Preferred Stock (NOTES B AND E)	1,000	10,000,000	-0-	-0-	-0-	-0-	-0-
Issuance of Class B Common Stock, net of expenses (NOTES B AND E)	-0-	-0-	-0-	-0-	5,250,000	66,065,762	-0-
Income tax benefits relating to stock plans	-0-	-0-	-0-	132,000	-0-	-0-	-0-
Balance at December 31, 1996	2,000	20,000,000	7,732,996	7,994,235	5,250,000	66,065,762	10,543,940
Net Loss	-0-	-0-	-0-	-0-	-0-	-0-	(1,402,458)
Common Stock Cash Dividends (\$0.05) per share	-0-	-0-	-0-	-0-	-0-	-0-	(628,045)
Preferred Stock Dividends	-0-	-0-	-0-	-0-	-0-	-0-	(1,409,690)
Issuance of Class A Common Stock (NOTES E AND F):							
Directors' Stock Plan	-0-	-0-	752	9,645	-0-	-0-	-0-
Non-qualified Stock Plan	-0-	-0-	44,775	317,151	-0-	-0-	-0-
Stock Award Restricted Stock Plan	-0-	-0-	183,051	1,200,000	-0-	-0-	-0-
Issuance of Class B Common Stock (NOTES E AND H):							
401(k) Plan	-0-	-0-	-0-	-0-	23,046	282,384	-0-
Issuance of Series B Preferred Stock (NOTE E)	60	600,000	-0-	-0-	-0-	-0-	-0-
Issuance of Treasury Stock (NOTES E, F, AND H):							
401(k) Plan	-0-	-0-	-0-	-0-	-0-	49,658	-0-
Non-qualified Stock Plan	-0-	-0-	-0-	-0-	-0-	-0-	(500,556)
Purchase of Class A Common Stock (NOTE E)	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Income tax benefits relating to stock plans	-0-	-0-	-0-	837,000	-0-	-0-	-0-
Balance at December 31, 1997	2,060	\$20,600,000	7,961,574	\$10,358,031	5,273,046	\$66,397,804	\$ 6,603,191

	CLASS A TREASURY SHARES	CLASS A STOCK AMOUNT	CLASS B TREASURY SHARES	CLASS B STOCK AMOUNT	TOTAL
Balance at December 31, 1995	(994,770)	\$(6,638,284)	-0-	\$ -0-	\$8,985,598
Net Income	-0-	-0-	-0-	-0-	2,519,481
Common Stock Cash Dividends:					
Class A (\$0.05 per share)	-0-	-0-	-0-	-0-	(357,598)
Class B (\$0.01 per share)	-0-	-0-	-0-	-0-	(69,000)
Purchase of Class B Common Stock (NOTE E)	-0-	-0-	(258,450)	(2,740,137)	(2,740,137)
Issuance of Class A Common Stock (NOTES E, F AND H):					
401(k) Plan	-0-	-0-	-0-	-0-	262,426
Directors' Stock Plan	-0-	-0-	-0-	-0-	228,749
Non-qualified Stock Plan	-0-	-0-	-0-	-0-	358,417
Preferred Stock Dividends	-0-	-0-	-0-	-0-	(376,849)
Issuance of Class A Common Stock Warrants (NOTES B AND E)	-0-	-0-	-0-	-0-	2,600,000
Issuance of Series A Preferred Stock in exchange for Subordinated Note (NOTES B AND E)	-0-	-0-	-0-	-0-	7,616,667
Issuance of Series B Preferred Stock (NOTES B AND E)	-0-	-0-	-0-	-0-	10,000,000
Issuance of Class B Common Stock, net of expenses (NOTES B AND E)	-0-	-0-	-0-	-0-	66,065,762
Income tax benefits relating to stock					

plans	-0-	-0-	-0-	-0-	132,000
Balance at December 31, 1996	(994,770)	(6,638,284)	(258,450)	(2,740,137)	95,225,516
Net Loss	-0-	-0-	-0-	-0-	(1,402,458)
Common Stock Cash Dividends (\$0.05) per share	-0-	-0-	-0-	-0-	(628,045)
Preferred Stock Dividends	-0-	-0-	-0-	-0-	(1,409,690)
Issuance of Class A Common Stock (NOTES E AND F):					
Directors' Stock Plan	-0-	-0-	-0-	-0-	9,645
Non-qualified Stock Plan	-0-	-0-	-0-	-0-	317,151
Stock Award Restricted Stock Plan	-0-	-0-	-0-	-0-	1,200,000
Issuance of Class B Common Stock (NOTES E AND H):					
401(k) Plan	-0-	-0-	-0-	-0-	282,384
Issuance of Series B Preferred Stock (NOTE E)	-0-	-0-	-0-	-0-	600,000
Issuance of Treasury Stock (NOTES E, F, AND H):					
401(k) Plan	-0-	-0-	8,265	87,628	137,286
Non-qualified Stock Plan	81,238	1,082,390	-0-	-0-	581,834
Purchase of Class A Common Stock (NOTE E)	(259,350)	(3,455,475)	-0-	-0-	(3,455,475)
Income tax benefits relating to stock plans	-0-	-0-	-0-	-0-	837,000
Balance at December 31, 1997	(1,172,882)	\$(9,011,369)	(250,185)	\$(2,652,509)	\$92,295,148

See accompanying notes.

GRAY COMMUNICATIONS SYSTEMS, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (CONTINUED)

GRAY COMMUNICATIONS SYSTEMS, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (CONTINUED)

	PREFERRED STOCK		CLASS A COMMON STOCK		CLASS B COMMON STOCK		RETAINED
	SHARES	AMOUNT	SHARES	AMOUNT	SHARES	AMOUNT	EARNINGS
Balance at December 31, 1997	2,060	\$20,600,000	7,961,574	\$10,358,031	5,273,046	\$66,397,804	\$6,603,191
Net Income	-0-	-0-	-0-	-0-	-0-	-0-	41,659,366
Common Stock Cash Dividends (\$0.06) per share	-0-	-0-	-0-	-0-	-0-	-0-	(715,209)
Preferred Stock Dividends	-0-	-0-	-0-	-0-	-0-	-0-	(1,317,830)
Issuance of Treasury Stock (NOTES E, F, AND H):							
401(k) Plan	-0-	-0-	-0-	-0-	-0-	180,821	-0-
Directors' Stock Plan	-0-	-0-	-0-	-0-	-0-	30,652	-0-
Non-qualified Stock Plan	-0-	-0-	-0-	-0-	-0-	9,597	(491,917)
Purchase of Class A Common Stock (NOTE E)	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Issuance of Series B Preferred Stock (NOTE E)	51	509,384	-0-	-0-	-0-	-0-	-0-
Purchase of Series B Preferred Stock (NOTE E)	(761)	(7,609,384)	-0-	-0-	-0-	-0-	-0-
Income tax benefits relating to stock plans	-0-	-0-	-0-	325,678	-0-	173,511	-0-
Balance at December 31, 1998	1,350	\$13,500,000	7,961,574	\$10,683,709	5,273,046	\$66,792,385	\$45,737,601

	CLASS A TREASURY STOCK		CLASS B TREASURY STOCK		TOTAL
	SHARES	AMOUNT	SHARES	AMOUNT	
Balance at December 31, 1997	(1,172,882)	\$(9,011,369)	(250,185)	\$(2,652,509)	\$92,295,148
Net Income	-0-	-0-	-0-	-0-	41,659,366
Common Stock Cash Dividends (\$0.06) per share	-0-	-0-	-0-	-0-	(715,209)
Preferred Stock Dividends	-0-	-0-	-0-	-0-	(1,317,830)
Issuance of Treasury Stock (NOTES E, F, AND H):					
401(k) Plan	-0-	-0-	29,305	310,703	491,524
Directors' Stock Plan	-0-	-0-	84,300	893,763	924,415
Non-qualified Stock Plan	74,100	1,015,254	1,500	15,900	548,834
Purchase of Class A Common Stock (NOTE E)	(30,750)	(582,567)	-0-	-0-	(582,567)
Issuance of Series B Preferred Stock (NOTE E)	-0-	-0-	-0-	-0-	509,384
Purchase of Series B Preferred Stock (NOTE E)	-0-	-0-	-0-	-0-	(7,609,384)
Income tax benefits relating to stock plans	-0-	-0-	-0-	-0-	499,189
Balance at December 31, 1998	(1,129,532)	\$(8,578,682)	(135,080)	\$(1,432,143)	\$126,702,870

See accompanying notes.

GRAY COMMUNICATIONS SYSTEMS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

YEAR ENDED DECEMBER 31,

	1998	1997	1996
OPERATING ACTIVITIES			
Net income (loss)	\$ 41,659,366	\$ (1,402,458)	\$ 2,519,481
Items which did not use (provide) cash:			
Depreciation	9,690,757	7,800,217	4,077,696
Amortization of intangible assets	8,425,821	6,718,302	3,584,845
Amortization of deferred loan costs	1,097,952	1,083,303	270,813
Amortization of program broadcast rights	4,250,714	3,501,330	2,742,712
Amortization of original issue discount on 8% subordinated note	-0-	-0-	216,667
Write-off of loan acquisition costs from early extinguishment of debt	-0-	-0-	1,818,840
Gain on disposition of television stations	(70,572,128)	-0-	(5,671,323)
Payments for program broadcast rights	(4,209,811)	(3,629,350)	(2,877,128)
Compensation paid in Common Stock	-0-	-0-	880,000
Supplemental employee benefits	(252,611)	(196,057)	(855,410)
Common Stock contributed to 401(K) Plan	491,524	419,670	262,426
Deferred income taxes	26,792,795	1,283,000	(44,000)
Loss on asset sales	332,042	108,998	201,792
Changes in operating assets and liabilities:			
Trade accounts receivable	(302,905)	(369,675)	(1,575,723)
Recoverable income taxes	406,749	(384,597)	(400,680)
Inventories	(344,393)	(101,077)	254,952
Other current assets	342,674	(569,745)	(21,248)
Trade accounts payable	(797,447)	(2,825,099)	2,256,795
Employee compensation and benefits	1,283,150	(2,848,092)	2,882,379
Accrued expenses	79,644	1,279,164	(2,936,155)
Accrued interest	1,074,768	(325,409)	3,794,284
Deferred revenue	625,149	201,657	710,286
Net cash provided by operating activities	20,073,810	9,744,082	12,092,301
INVESTING ACTIVITIES			
Acquisition of television businesses	(122,455,774)	(45,644,942)	(210,944,547)
Disposition of television business	76,440,419	-0-	9,480,699
Purchases of property and equipment	(9,270,623)	(10,371,734)	(3,395,635)
Proceeds from asset sales	318,697	24,885	174,401
Deferred acquisition costs	-0-	(89,056)	-0-
Payments on purchase liabilities	(551,917)	(764,658)	(243,985)
Other	220,390	(652,907)	(139,029)
Net cash used in investing activities	(55,298,808)	(57,498,412)	(205,068,096)
FINANCING ACTIVITIES			
Proceeds from borrowings on long-term debt	90,070,000	75,350,000	238,478,310
Repayments of borrowings on long-term debt	(46,609,122)	(22,678,127)	(109,434,577)
Deferred loan costs	(854,235)	(463,397)	(9,410,078)
Dividends paid	(1,642,709)	(1,428,045)	(426,598)
Common Stock transactions	499,189	1,163,796	719,166
Proceeds from equity offering - Class B Common Stock, net of expenses	-0-	-0-	66,065,762
Proceeds from offering of Series B Preferred Stock	-0-	-0-	10,000,000
Proceeds from settlement of interest rate swap agreement	-0-	-0-	215,000
Proceeds from sale of treasury shares	1,473,249	581,834	-0-
Purchase of Class A Common Stock	(582,567)	(3,455,475)	-0-
Purchase of Class B Common Stock	-0-	-0-	(2,740,137)
Redemption of Preferred Stock	(7,609,384)	-0-	-0-
Net cash provided by financing activities	34,744,421	49,070,586	193,466,848
Increase (decrease) in cash and cash equivalents	(480,577)	1,316,256	491,053
Cash and cash equivalents at beginning of year	2,367,300	1,051,044	559,991
Cash and cash equivalents at end of year	\$ 1,886,723	\$ 2,367,300	\$ 1,051,044

See accompanying notes.

GRAY COMMUNICATIONS SYSTEMS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

DESCRIPTION OF BUSINESS

The Company's operations, which are located in ten southeastern and midwestern states, include ten television stations, a transportable satellite uplink business, three daily newspapers, a weekly advertising only publication and paging operations.

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the Company and its subsidiaries. All significant intercompany accounts and transactions have been eliminated.

REVENUE RECOGNITION

The Company recognizes revenues as services are performed.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash on deposit with a bank. Deposits with the bank are generally insured in limited amounts.

INVENTORIES

Inventories, principally newsprint and supplies, are stated at the lower of cost or market. The Company uses the last-in, first-out ("LIFO") method of determining costs for substantially all of its inventories. Current cost exceeded the LIFO value of inventories by approximately \$13,000 and \$15,000 at December 31, 1998, and 1997, respectively.

PROGRAM BROADCAST RIGHTS

Rights to programs available for broadcast under program license agreements are initially recorded at the beginning of the license period for the amounts of total license fees payable under the license agreements and are charged to operating expense on the basis of total programs available for use on the straight-line method. The portion of the unamortized balance expected to be charged to operating expense in the succeeding year is classified as a current asset, with the remainder classified as a non-current asset. The liability for the license fees payable under the program license agreements is classified as current or long-term, in accordance with the payment terms of the various license agreements. The capitalized costs of the rights are recorded at the lower of unamortized costs or estimated net realizable value.

PROPERTY AND EQUIPMENT

Property and equipment are carried at cost. Depreciation is computed principally by the straight-line method for financial reporting purposes and by accelerated methods for income tax purposes. Buildings,

GRAY COMMUNICATIONS SYSTEMS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

PROPERTY AND EQUIPMENT (CONTINUED)

improvements and equipment are depreciated over estimated useful lives of approximately 35 years, 10 years and 5 years, respectively.

INTANGIBLE ASSETS

Intangible assets are stated at cost and are amortized using the straight-line method. Goodwill is amortized over 40 years. Loan acquisition fees are amortized over the life of the applicable indebtedness. Non-compete agreements are amortized over the life of the specific agreement. Accumulated amortization of intangible assets resulting from business acquisitions was \$21.2 million and \$11.5 million as of December 31, 1998, and 1997, respectively.

If facts and circumstances indicate that the goodwill, property and equipment or other assets may be impaired, an evaluation of continuing value would be performed. If an evaluation is required, the estimated future undiscounted cash flows associated with these assets would be compared to their carrying amount to determine if a write down to fair market value or discounted cash flow value is required.

INCOME TAXES

Deferred income taxes are provided on the differences between the financial statement and income tax basis of assets and liabilities. The Company and its subsidiaries file a consolidated federal income tax return. Consolidated state income tax returns are filed when appropriate and separate state tax returns are filed when consolidation is not available. Local tax returns are filed separately.

CAPITAL STOCK

On August 20, 1998, the Board of Directors declared a 50% stock dividend, payable on September 30, 1998, to stockholders of record of the Class A Common Stock and Class B Common Stock on September 16, 1998. This stock dividend effected a three for two stock split. All applicable share and per share data have been adjusted to give effect to the stock split.

STOCK BASED COMPENSATION

The Company has elected to follow Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25") and related interpretations in accounting for its stock options. Under APB 25, if the exercise price of the stock options granted by the Company equals the market price of the underlying stock on the date of the grant, no compensation expense is recognized.

CONCENTRATION OF CREDIT RISK

The Company provides print advertising and advertising air time to national, regional and local advertisers within the geographic areas in which the Company operates. Credit is extended based on an evaluation of the customer's financial condition, and generally advance payment is not required. Credit losses are provided for in the financial statements and consistently have been within management's expectations.

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FAIR VALUE OF FINANCIAL INSTRUMENTS

The estimated fair value of long-term debt at December 31, 1998, and 1997 exceeded book value by \$10.4 million and \$13.2 million, respectively. The fair value of the Preferred Stock at December 31, 1998, and 1997 approximates its carrying value at that date. The Company does not anticipate settlement of long-term debt or preferred stock at other than book value.

The fair value of other financial instruments classified as current assets or liabilities approximates their carrying values due to the short-term maturities of these instruments.

RECLASSIFICATIONS

Certain amounts in the accompanying consolidated financial statements have been reclassified to conform to the 1998 format.

B. BUSINESS ACQUISITIONS AND DISPOSITIONS

The Company's acquisitions have been accounted for under the purchase method of accounting. Under the purchase method of accounting, the results of operations of the acquired businesses are included in the accompanying consolidated financial statements as of their respective acquisition dates. The assets and liabilities of acquired businesses are included based on an allocation of the purchase price.

RECENT AND PENDING ACQUISITIONS

On March 1, 1999, the Company acquired substantially all of the assets of THE GOSHEN NEWS from News Printing Company, Inc. and affiliates thereof, for aggregate cash consideration of approximately \$16.7 million including a non-compete agreement. THE GOSHEN NEWS is a 17,000 circulation afternoon newspaper published Monday through Saturday and serves Goshen, Indiana and surrounding areas. The Company financed the acquisition through its \$200.0 million bank loan agreement (the "Senior Credit Facility").

On January 28, 1999, Bull Run Corporation ("Bull Run"), a principal stockholder of the Company, acquired 301,119 shares of the outstanding common stock of Sarkes Tarzian, Inc. ("Tarzian") from the Estate of Mary Tarzian (the "Estate") for \$10.0 million. The acquired shares (the "Tarzian Shares") represent 33.5% of the total outstanding common stock of Tarzian (both in terms of the number of shares of common stock outstanding and in terms of voting rights), but such investment represents 73% of the equity of Tarzian for purposes of dividends as well as distributions in the event of any liquidation, dissolution or other termination of Tarzian. Tarzian has filed a complaint in the United States District Court for the Southern District of Indiana, claiming that it had a binding contract with the Estate to purchase the Tarzian Shares from the Estate prior to Bull Run's purchase of the shares, and requests judgment providing that the Estate be required to sell the Tarzian Shares to Tarzian. Bull Run believes that a binding contract between Tarzian and the Estate did not exist, prior to Bull Run's purchase of the Tarzian Shares from the Estate, and in any case, Bull Run's purchase agreement with the Estate provides that in the event that a court of competent jurisdiction awards title to the Tarzian Shares to a person or entity other than Bull Run, the purchase agreement is rescinded and the Estate is required to pay Bull Run the full \$10.0 million purchase price, plus interest. Tarzian owns and operates two television stations and four radio stations: WRCB-TV Channel 3 in Chattanooga, Tennessee, an NBC affiliate; KTVN-TV Channel 2 in Reno, Nevada, a CBS affiliate; WGCL-AM and WTTS-FM in Bloomington, Indiana; and WAJI-FM and WLDE-FM in Fort Wayne, Indiana. The Chattanooga and Reno markets rank as the 87th and the 108th largest television markets in the United States, respectively, as ranked by A. C. Nielsen Company.

GRAY COMMUNICATIONS SYSTEMS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

B. BUSINESS ACQUISITIONS AND DISPOSITIONS (CONTINUED)

RECENT AND PENDING ACQUISITIONS (CONTINUED)

The Company has executed an option agreement with Bull Run, whereby the Company has the option of acquiring the Tarzian investment from Bull Run. Upon exercise of the option, the Company will pay Bull Run an amount equal to Bull Run's purchase price for the Tarzian investment and related costs. The option agreement currently expires on May 31, 1999; however, the Company may extend the option period at an established fee. In connection with the option agreement, the Company granted to Bull Run warrants to purchase up to 100,000 shares of the Company's Class B Common Stock at \$13.625 per share. The warrants vest immediately upon the Company's exercise of its option to purchase the Tarzian investment. Neither Bull Run's investment nor the Company's potential investment is presently attributable under the ownership rules of the Federal Communications Commission ("FCC"). If the Company successfully exercises the option agreement, the Company plans to fund the acquisition through its Senior Credit Facility.

1998 ACQUISITIONS AND DISPOSITION

On July 31, 1998, the Company completed the purchase of all of the outstanding capital stock of Busse Broadcasting Corporation ("Busse"). The purchase price was \$120.5 million less the accreted value of Busse's 11 5/8% Senior Secured Notes due 2000 ("Busse Senior Notes"). The purchase price of the capital stock consisted of the contractual purchase price of \$112.0 million, associated transaction costs of \$2.9 million and Busse's cash and cash equivalents of \$5.6 million. Immediately following the acquisition of Busse, the Company exercised its right to satisfy and discharge the Busse Senior Notes, effectively prefunding the Busse Senior Notes at the October 15, 1998 call price of 106 plus accrued interest. The amount necessary to satisfy and discharge the Busse Senior Notes was approximately \$69.9 million. Based on the preliminary allocation of the purchase price, the excess of the purchase price over the fair value of net tangible assets acquired was approximately \$122.8 million.

Immediately prior to the Company's acquisition of Busse, Cosmos Broadcasting Corporation acquired the assets of WEAU-TV ("WEAU") from Busse and exchanged them for the assets of WALB-TV, Inc. ("WALB"), the Company's NBC affiliate in Albany, Georgia. In exchange for the assets of WALB, the Company received the assets of WEAU, which were valued at \$66.0 million, and approximately \$12.0 million in cash for a total value of \$78.0 million. The Company recognized a pre-tax gain of approximately \$70.6 million and estimated deferred income taxes of approximately \$27.5 million in connection with the exchange of WALB. The Company funded the remaining costs of the acquisition of Busse's capital stock through its Senior Credit Facility.

As a result of these transactions, the Company added the following television stations to its existing broadcast group: KOLN-TV("KOLN"), the CBS affiliate serving the Lincoln-Hastings-Kearney, Nebraska market; its satellite station KGIN-TV ("KGIN"), the CBS affiliate serving Grand Island, Nebraska; and WEAU, an NBC affiliate serving the La Crosse-Eau Claire, Wisconsin market. These transactions also satisfied the FCC's requirement for the Company to divest itself of WALB. The transactions described above are referred to herein as the "Busse-WALB Transactions."

The Company's Board of Directors has agreed to pay Bull Run a fee of approximately \$2.0 million for services performed in connection with the Busse-WALB Transactions. Of this fee, \$1.1 million had been paid to Bull Run and \$880,000 remained in accounts payable at December 31, 1998.

Unaudited pro forma operating data for the years ended December 31, 1998 and 1997 are presented below and assumes that the Busse-WALB Transactions and the 1997 Broadcasting Acquisitions (as

GRAY COMMUNICATIONS SYSTEMS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

B. BUSINESS ACQUISITIONS AND DISPOSITIONS (CONTINUED)

1998 ACQUISITIONS AND DISPOSITION (CONTINUED)

defined in 1997 ACQUISITIONS) were completed on January 1, 1997. The above described unaudited pro forma operating data excludes a pre-tax gain of approximately \$70.6 million and estimated deferred income taxes of approximately \$27.5 million in connection with the disposition of WALB.

This unaudited pro forma operating data does not purport to represent the Company's actual results of operations had the Busse-WALB Transactions and the 1997 Broadcasting Acquisitions been completed on January 1, 1997, 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 years ended December 31, 1998 and 1997, are as follows (in thousands, except per common share data):

	DECEMBER 31,	
	1998	1997
	(UNAUDITED)	
Revenues, net	\$ 133,661 =====	\$ 117,981 =====
Net loss available to common stockholders	\$ (4,562) =====	\$ (6,647) =====
Loss per share available to common stockholders:		
Basic	\$ (0.38) =====	\$ (0.56) =====
Diluted	\$ (0.38) =====	\$ (0.56) =====

The pro forma results presented above include adjustments to reflect (i) the incurrence of interest expense to fund the respective acquisitions, (ii) depreciation and amortization of assets acquired, (iii) the elimination of the corporate expense allocation net of additional accounting and administrative expenses and (iv) the income tax effect of such pro forma adjustments.

1997 ACQUISITIONS

On August 1, 1997, the Company purchased the assets of WITN-TV ("WITN"). The purchase price of approximately \$41.7 million consisted of \$40.7 million cash, \$600,000 in acquisition related costs, and approximately \$400,000 in liabilities which were assumed by the Company. The excess of the purchase price over the fair value of net tangible assets acquired was approximately \$37.4 million. The Company funded the costs of this acquisition through its Senior Credit Facility. WITN operates on Channel 7 and is the NBC affiliate in the Greenville-New Bern-Washington, North Carolina market. In connection with the purchase of the assets of WITN ("WITN Acquisition"), the Company paid Bull Run a fee of \$400,000 for services performed.

On April 24, 1997, the Company acquired all of the issued and outstanding common stock of GulfLink Communications, Inc. ("GulfLink") of Baton Rouge, Louisiana. The GulfLink operations included nine transportable satellite uplink trucks. The purchase price of approximately \$5.2 million consisted of \$4.1 million cash, \$127,000 in acquisition related costs, and approximately \$1.0 million in liabilities which were assumed by the Company. The excess of the purchase price over the fair value of net tangible assets acquired was approximately \$3.6 million. The Company funded the costs of this acquisition through its Senior Credit Facility. In connection with the purchase of the common stock of GulfLink Communications, Inc. (the "GulfLink Acquisition"), the Company paid Bull Run a fee equal to

GRAY COMMUNICATIONS SYSTEMS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

B. BUSINESS ACQUISITIONS AND DISPOSITIONS (CONTINUED)

1997 ACQUISITIONS (CONTINUED)

\$58,000 for services performed. The WITN Acquisition and the GulfLink Acquisition are hereinafter referred to as the "1997 Broadcasting Acquisitions."

Unaudited pro forma operating data for the year ended December 31, 1997, and 1996 are presented below and assumes that the 1997 Broadcasting Acquisitions, the First American Acquisition (as defined in 1996 ACQUISITIONS AND DISPOSITION) and the KTVE Sale (as defined in 1996 ACQUISITIONS AND DISPOSITION) occurred on January 1, 1996.

This unaudited pro forma operating data does not purport to represent the Company's actual results of operations had these transactions occurred on January 1, 1996, 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 years ended December 31, 1997 and 1996, are as follows (in thousands, except per common share data):

	DECEMBER 31,	
	1997	1996
	(UNAUDITED)	
Revenues, net	\$ 109,099 =====	\$ 108,908 =====
Net loss available to common stockholders	\$ (3,769) =====	\$ (2,397) =====
Loss per share available to common stockholders:		
Basic	\$ (0.32) =====	\$ (0.20) =====
Diluted	\$ (0.32) =====	\$ (0.20) =====

The pro forma results presented above include adjustments to reflect (i) the incurrence of interest expense to fund the 1997 Broadcasting Acquisitions, and the First American Acquisition (as defined in 1996 ACQUISITIONS AND DISPOSITION), (ii) depreciation and amortization of assets acquired, (iii) the reduction of employee compensation related to severance and vacation compensation for 1996, (iv) the elimination of the corporate expense allocation net of additional accounting and administrative expenses for the WITN Acquisition and the First American Acquisition, (v) increased pension expense for the First American Acquisition, and (vi) the income tax effect of such pro forma adjustments. Average outstanding shares used to calculate pro forma earnings per share data for 1996 include the 5,250,000 Class B Common shares issued in connection with the First American Acquisition.

1996 ACQUISITIONS AND DISPOSITION

On September 30, 1996, the Company purchased from First American Media, Inc. substantially all of the assets used in the operation of two CBS-affiliated television stations, WCTV-TV ("WCTV") serving Tallahassee, Florida-Thomasville, Georgia and WKXT-TV ("WKXT") in Knoxville, Tennessee, as well as those assets used in the operations of a satellite uplink and production services business and a communications and paging business (the "First American Acquisition"). Subsequent to the First American Acquisition, the Company rebranded WKXT with the call letters WVLT ("WVLT"). The purchase price of approximately \$183.9 million consisted of \$175.5 million cash, \$1.8 million in acquisition related costs, and the assumption of approximately \$6.6 million of liabilities. The excess of the purchase price over the fair value of net tangible assets acquired was approximately \$160.2 million. The Company paid Bull Run, a fee equal to approximately \$1.7 million for services performed in

GRAY COMMUNICATIONS SYSTEMS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

B. BUSINESS ACQUISITIONS AND DISPOSITIONS (CONTINUED)

1996 ACQUISITIONS AND DISPOSITION (CONTINUED)

connection with this acquisition.

The First American Acquisition and the early retirement of the Company's existing bank credit facility and other senior indebtedness, were funded as follows: net proceeds of \$66.1 million from the sale of 5,250,000 shares of the Company's Class B Common Stock; net proceeds of \$155.2 million from the sale of \$160.0 million principal amount of the Company's 10 5/8% Senior Subordinated Notes due 2006; \$16.9 million of borrowings under the Senior Credit Facility; and \$10.0 million net proceeds from the sale of 1,000 shares of the Company's Series B Preferred Stock with warrants to purchase 750,000 shares of the Company's Class A Common Stock at \$16 per share. The shares of Series B Preferred Stock were issued to Bull Run and to J. Mack Robinson, Chairman of the Board of Bull Run and President and Chief Executive Officer of the Company, and certain of his affiliates. The Company obtained an opinion from an investment banker as to the fairness of the terms of the sale of such Series B Preferred Stock with warrants.

In connection with the First American Acquisition, the FCC ordered the Company to divest itself of WALB in Albany, Georgia and WJHG-TV ("WJHG") in Panama City, Florida by March 31, 1997 to comply with regulations governing common ownership of television stations with overlapping service areas. The FCC is currently reexamining these regulations, and if it revises them in accordance with the interim policy it has adopted, divestiture of WJHG would not be required. Accordingly, the Company requested and in July of 1997 received an extension of the divestiture deadline with regard to WJHG conditioned upon the outcome of the rulemaking proceedings. It can not be determined when the FCC will complete its rulemaking on this subject. On July 31, 1998, the assets of WALB were exchanged for the assets of WEAU. This exchange transaction satisfied the FCC's divestiture requirement for WALB.

Condensed unaudited balance sheets of WALB and WJHG are as follows (in thousands):

	WALB DECEMBER 31,	WJHG DECEMBER 31,	
	1997	1998	1997
	----- (UNAUDITED)	----- (UNAUDITED)	
Current assets	\$2,379	\$1,163	\$1,053
Property and equipment	1,473	1,323	848
Other assets	471	148	346
	-----	-----	-----
Total assets	\$4,323	\$2,634	\$2,247
	=====	=====	=====
Current liabilities	\$ 994	\$ 583	\$ 350
Other liabilities	215	118	127
Stockholder's equity	3,114	1,933	1,770
	-----	-----	-----
Total liabilities and stockholder's equity	\$4,323	\$2,634	\$2,247
	=====	=====	=====

GRAY COMMUNICATIONS SYSTEMS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

B. BUSINESS ACQUISITIONS AND DISPOSITIONS (CONTINUED)

1996 ACQUISITIONS AND DISPOSITION (CONTINUED)

Condensed unaudited income statement data of WALB and WJHG are as follows
(in thousands):

	WALB			WJHG		
	SEVEN MONTHS ENDED JULY 31, 1998	YEAR ENDED DECEMBER 31, 1997	YEAR ENDED DECEMBER 31, 1996	YEAR ENDED DECEMBER 31, 1998	YEAR ENDED DECEMBER 31, 1997	YEAR ENDED DECEMBER 31, 1996
(UNAUDITED)						
Broadcasting revenues	\$6,773	\$10,090	\$10,611	\$5,057	\$4,896	\$5,217
Expenses	3,130	4,770	5,070	4,038	3,757	4,131
Operating income	3,643	5,320	5,541	1,019	1,139	1,086
Other income (expense)	(33)	3	7	1	(5)	6
Income before income taxes	\$ 3,610	\$5,323	\$5,548	\$1,020	\$1,134	\$1,092
Net income	\$ 2,238	\$3,295	\$3,465	\$ 632	\$ 737	\$ 685

On January 4, 1996, the Company purchased substantially all of the assets of WRDW-TV, a CBS television affiliate serving the Augusta, Georgia television market (the "Augusta Acquisition"). The purchase price of approximately \$37.2 million which included assumed liabilities of approximately \$1.3 million, was financed primarily through long-term borrowings. The assets acquired consisted of office equipment and broadcasting operations located in North Augusta, South Carolina. The excess of the purchase price over the fair value of net tangible assets acquired was approximately \$32.5 million. In connection with the Augusta Acquisition, the Company paid a fee of \$360,000 to Bull Run for services performed.

Funds for the Augusta Acquisition were obtained from the modification of the Company's existing bank debt on January 4, 1996 (the "Bank Loan") to a variable rate reducing revolving credit facility (the "Old Credit Facility") and the sale to Bull Run of an 8% subordinated note due January 3, 2005 in the principal amount of \$10.0 million (the "8% Note"). In connection with the sale of the 8% Note, the Company also issued warrants to Bull Run to purchase 731,250 shares of Class A Common Stock at \$11.92 per share. Of these warrants, 450,000 vested upon issuance with the remaining warrants vesting in five equal annual installments commencing on the first anniversary of the date of issuance. Approximately \$2.6 million of the \$10.0 million of proceeds from the 8% Note was allocated to the warrants and increased Class A Common Stock. The Old Credit Facility provided for a credit line up to \$54.2 million. This transaction also required a modification of the interest rate of the Company's \$25.0 million senior secured note with an institutional investor (the "Senior Note") from 10.08% to 10.7%.

As part of the financing arrangements for the First American Acquisition, the Old Credit Facility and the Senior Note were retired and the Company issued to Bull Run, in exchange for the 8% Note, 1,000 shares of Series A Preferred Stock. The warrants issued with the 8% Note were retired and the warrants issued with the Series A Preferred Stock will vest in accordance with the same schedule described above provided the Series A Preferred Stock remains outstanding. The Company recorded an extraordinary charge of \$5.3 million (\$3.2 million after taxes or \$0.39 per basic common share and \$0.37 per diluted common share for 1996) in connection with the early retirement of the \$25.0 million Senior Note and the write-off of loan acquisition costs from the early extinguishment of debt.

The Company sold the assets of KTVE Inc. (the "KTVE Sale"), its NBC-affiliated television station, in Monroe, Louisiana-El Dorado, Arkansas on August 20, 1996. The sales price included \$9.5 million in

GRAY COMMUNICATIONS SYSTEMS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

B. BUSINESS ACQUISITIONS AND DISPOSITIONS (CONTINUED)

1996 ACQUISITIONS AND DISPOSITION (CONTINUED)

cash plus the amount of the accounts receivable on the date of closing to the extent collected by the buyer, to be paid to the Company within 150 days following the closing date (approximately \$829,000). The Company recognized a pre-tax gain of approximately \$5.7 million and estimated income taxes of approximately \$2.8 million in connection with the sale.

Unaudited pro forma operating data for the years ended December 31, 1996 and 1995 is presented below and assumes that the Augusta Acquisition, the First American Acquisition, and the KTVE Sale occurred on January 1, 1995.

This unaudited pro forma operating data does not purport to represent the Company's actual results of operations had the Augusta Acquisition, the First American Acquisition, and the KTVE Sale occurred on January 1, 1995, 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 years ended December 31, 1996 and 1995, are as follows (in thousands, except per common share data):

	DECEMBER 31,	
	1996	1995
	(UNAUDITED)	
Revenues, net	\$ 97,540	\$ 90,637
Net loss available to common stockholders	\$ (1,388)	\$ (6,073)
Loss per share available to common stockholders:		
Basic	\$ (0.11)	\$ (0.51)
Diluted	\$ (0.11)	\$ (0.51)

The pro forma results presented above include adjustments to reflect (i) the incurrence of interest expense to fund the First American Acquisition and the WRDW Acquisition, (ii) depreciation and amortization of assets acquired, (iii) the reduction of employee compensation related to severance and vacation compensation for 1996, (iv) the elimination of the corporate expense allocation net of additional accounting and administrative expenses for the First American Acquisition, (v) increased pension expense for the First American Acquisition, and (vi) the income tax effect of such pro forma adjustments. Average outstanding shares used to calculate pro forma earnings per share data for 1996 and 1995 include the 5,250,000 Class B Common shares issued in connection with the First American Acquisition.

C. LONG-TERM DEBT

Long-term debt consists of the following (in thousands):

	DECEMBER 31,	
	1998	1997
10 5/8 % Senior Subordinated Notes due 2006	\$ 160,000	\$ 160,000
Senior Credit Facility	109,500	65,630
Other	1,155	1,446
	270,655	227,076
Less current portion	(430)	(400)
	\$ 270,225	\$ 226,676

GRAY COMMUNICATIONS SYSTEMS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

C. LONG-TERM DEBT (CONTINUED)

On September 20, 1996, the Company sold \$160.0 million principal amount of the Company's 10 5/8% Senior Subordinated Notes (the "Senior Subordinated Notes") due 2006. The net proceeds of \$155.2 million from this offering, along with the net proceeds from (i) the KTVE Sale, (ii) the issuance of Class B Common Stock, (iii) the issuance of Series B Preferred Stock and (iv) borrowings under the Senior Credit Facility, were used in financing the First American Acquisition as well as the early retirement of the Senior Note and the Old Credit Facility. Interest on the Senior Subordinated Notes is payable semi-annually on April 1 and October 1, commencing April 1, 1997.

The Senior Credit Facility included scheduled reductions in the \$125.0 million credit limit which commenced on March 31, 1997, interest rates based upon a spread over LIBOR and/or the lender's prime rate, an unused commitment fee of 0.50% applied to available funds and a maturity date of June 30, 2003. Effective September 17, 1997, the Senior Credit Facility was modified to reinstate the original credit limit of \$125.0 million which had been reduced by the scheduled reductions. The modification also reduced the interest rate spread over LIBOR and/or Prime. The modification also extended the maturity date from June 30, 2003 to June 30, 2004. The modification required a one-time fee of \$250,000.

Effective July 31, 1998, the Senior Credit Facility was modified to increase the committed credit limit from \$125.0 million to \$200.0 million. This modification also allows for an additional uncommitted \$100.0 million in available credit which is in addition to the committed \$200.0 million credit limit. This \$100.0 million in uncommitted available credit can be borrowed by the Company only after approval of the bank consortium. The modification also extended the maturity date from June 30, 2004 to June 30, 2005. The modification required a one-time fee of approximately \$750,000.

At December 31, 1998, the Company had approximately \$109.5 million borrowed under the Senior Credit Facility with approximately \$90.5 million available under the agreement. The interest rate on the outstanding balance was based on the lender's prime rate and a spread over LIBOR of 1.75%. Additionally, the effective interest rate of the Senior Credit Facility can be changed based upon the Company's maintenance of certain operating ratios as defined by the Senior Credit Facility, not to exceed the lender's prime rate plus 0.50% or LIBOR plus 2.25%. The effective interest rate on the Senior Credit Facility at December 31, 1998 and 1997 was 7.1% and 7.9%, respectively. The Company is charged a commitment fee on the excess of the aggregate average daily available credit limit less the amount outstanding. At December 31, 1998, the commitment fee was 0.50% per annum.

The Company's \$200.0 million Senior Credit Facility, as amended, is comprised of a term loan (the "Term Commitment") of \$100.0 million and a revolving credit facility (the "Revolving Commitment") of \$100.0 million.

As of December 31, 1998, the Company had \$9.5 million borrowed under the Senior Credit Facility's Revolving Commitment. The Revolving Commitment will automatically reduce as follows: 10% in 2000, 15% in 2001, 15% in 2002, 20% in 2003, 25% in 1994 and 15% in 2005.

As of December 31, 1998, the Company had \$100.0 million borrowed under the Senior Credit Facility's Term Commitment. The amount outstanding under the Term Commitment will become fixed as of December 30, 1999 and it will be reduced as follows: 2.5% in 1999, 10.0% in 2000, 10.0% in 2001, 17.5% in 2002, 17.5% in 2003, 21.2% in 2004 and 21.3% in 2005.

The agreement pursuant to which the Senior Credit Facility was issued contains certain restrictive provisions, which, among other things, limit additional indebtedness and require minimum levels of cash flows. The Senior Subordinated Notes also contained similar restrictive provisions as well as limitations on restricted payments.

C. LONG-TERM DEBT (CONTINUED)

The Senior Subordinated Notes are jointly and severally guaranteed (the "Subsidiary Guarantees") by all of the Company's subsidiaries (the "Subsidiary Guarantors"). The obligations of the Subsidiary Guarantors under the Subsidiary Guarantees is subordinated, to the same extent as the obligations of the Company in respect of the Senior Subordinated 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).

The Company 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 the Company on a consolidated basis. The Subsidiary Guarantors are, directly or indirectly, wholly-owned subsidiaries of the Company and the Subsidiary Guarantees are full, unconditional and joint and several. All of the current and future direct and indirect subsidiaries of the Company will be guarantors of the Senior Subordinated Notes. Accordingly, separate financial statements and other disclosures of each of the Subsidiary Guarantors are not presented because management has determined that they are not material to investors. The Senior Subordinated Notes and the Senior Credit Facility are secured by substantially all of the Company's existing and hereafter acquired assets.

Aggregate minimum principal maturities on long-term debt as of December 31, 1998, were as follows (in thousands):

YEAR	MINIMUM PRINCIPAL MATURITIES
1999	\$ 430
2000	330
2001	209
2002	62
2003	27,067
Thereafter	242,557

	\$ 270,655
	=====

The Company made interest payments of approximately \$22.9 million, \$21.3 million, and \$7.6 million during 1998, 1997 and 1996, respectively.

In the year ended December 31, 1996, the Company recorded an extraordinary charge of \$5.3 million (\$3.2 million after taxes or \$0.39 per basic common share or \$0.37 per diluted common share) in connection with the early retirement of the Senior Note and the write-off of unamortized loan acquisition costs of the Senior Note and the Old Credit Facility resulting from the early extinguishment of debt.

D. SUPPLEMENTAL EMPLOYEE BENEFITS AND OTHER AGREEMENTS

The Company had an employment agreement with its former President, Ralph W. Gabbard, which provided for an award of 183,051 shares of the Company's Class A Common Stock if his employment with the Company continued until September 1999. Mr. Gabbard died unexpectedly in September 1996. The Company awarded these shares to the estate of Mr. Gabbard. Approximately \$880,000 of expense was recorded in 1996.

The Company has entered into supplemental retirement benefit and other agreements with certain key employees. These benefits are to be paid primarily in equal monthly amounts over the employees' life for a period not to exceed 15 years after retirement. The Company charges against operations

GRAY COMMUNICATIONS SYSTEMS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

D. SUPPLEMENTAL EMPLOYEE BENEFITS AND OTHER AGREEMENTS (CONTINUED)

amounts sufficient to fund the present value of the estimated lifetime supplemental benefit over each employee's anticipated remaining period of employment.

The following summarizes activity relative to certain officers' agreements and the supplemental employee benefits (in thousands):

	YEAR ENDED DECEMBER 31,		
	1998	1997	1996
Beginning liability	\$ 1,526	\$ 3,158	\$ 2,938
Provision	180	161	918
Forfeitures	(61)	-0-	-0-
Net expense	119	161	918
Payments	(202)	(1,793)	(698)
Net change	(83)	(1,632)	220
Ending liability	1,443	1,526	3,158
Less current portion	(315)	(365)	(1,801)
	\$ 1,128	\$ 1,161	\$ 1,357

E. STOCKHOLDERS' EQUITY

During 1996, the Company amended its Articles of Incorporation to increase to 50,000,000 the number of shares of all classes of stock which the Company has the authority to issue, of which, 15,000,000 shares are designated Class A Common Stock, 15,000,000 shares are designated Class B Common Stock, and 20,000,000 shares are designated "blank check" preferred stock for which the Board of Directors has the authority to determine the rights, powers, limitations and restrictions. The rights of the Company's Class A and Class B Common Stock are identical, except that the Class A Common Stock has 10 votes per share and the Class B Common Stock has one vote per share. The Class A and Class B Common Stock receive cash dividends on an equal per share basis.

As part of the financing for the Augusta Acquisition in 1996, funding was obtained from the 8% Note, which included the issuance of detachable warrants to Bull Run to purchase 731,250 shares of Class A Common Stock at \$11.92 per share. Of these warrants 450,000 vested upon issuance, with the remaining warrants vesting in five equal annual installments commencing on the first anniversary of the date of issuance. Approximately \$2.6 million of the \$10.0 million of proceeds from the 8% Note was allocated to the warrants and increased Class A Common Stock. This allocation of the proceeds was based on an estimate of the relative fair values of the 8% Note and the warrants on the date of issuance. The Company amortized the original issue discount on a ratable basis in accordance with the original terms of the 8% Note through September 30, 1996. The Company recognized approximately \$217,000 in amortization costs for the \$2.6 million original issue discount. In September 1996, the Company exchanged the 8% Note with Bull Run for 1,000 shares of liquidation preference Series A Preferred Stock yielding 8%. The warrants issued with the 8% Note were retired and the warrants issued with the Series A Preferred Stock will vest in accordance with the same schedule described above provided the Series A Preferred Stock remains outstanding. The holder of the Series A Preferred Stock will receive cash dividends at an annual rate of \$800 per share. The liquidation or redemption price of the Series A Preferred Stock is \$10,000 per share.

As part of the financing for the First American Acquisition in 1996, the Company also issued 1,000 shares of Series B Preferred Stock, with warrants to purchase an aggregate of 750,000 shares of Class A Common Stock at an exercise price of \$16.00 per share. Of these warrants 450,000 vested upon issuance, with the remaining warrants vesting in five equal annual installments commencing on the first anniversary

GRAY COMMUNICATIONS SYSTEMS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

E. STOCKHOLDERS' EQUITY (CONTINUED)

of the date of issuance. The shares of Series B Preferred Stock were issued to Bull Run and to J. Mack Robinson, Chairman of the Board of Bull Run and President and Chief Executive Officer of the Company, and certain of his affiliates. The Company obtained a written opinion from an investment banker as to the fairness of the terms of the sale of such Series B Preferred Stock with warrants. The holders of the Series B Preferred Stock will receive dividends at an annual rate of \$600 per share, except the Company at its option may pay these dividends in cash or in additional shares. The liquidation or redemption price of the Series B Preferred Stock is \$10,000 per share. In August 1998 and September 1997, the Company issued 50.9 shares and 60.0 shares of Series B Preferred Stock, respectively, as payment of dividends to the holders of its then outstanding Series B Preferred Stock. During 1998, the Company redeemed 760.9 shares of Series B Preferred Stock at a cost of \$7.6 million.

On September 24, 1996, the Company completed a public offering of 5.25 million shares of its Class B Common Stock at an offering price of \$13.67 per share. The proceeds, net of expenses, from this public offering of approximately \$66.1 million were used in the financing of the First American Acquisition.

The Company is authorized by its Board of Directors to purchase up to two million shares of the Company's Class A or Class B Common Stock to either be retired or reissued in connection with the Company's benefit plans, including the Capital Accumulation Plan and the Incentive Plan. During 1998, 1997 and 1996, the Company purchased 30,750 Class A Common Stock Shares, 259,350 Class A Common Stock shares and 258,450 Class B Common Stock shares, respectively, under this authorization. The 1998, 1997 and 1996 treasury shares were purchased at prevailing market prices with an average effective price of \$18.95, \$13.33 and \$10.60 per share, respectively, and were funded from the Company's operating cash flow.

F. LONG-TERM INCENTIVE PLAN AND STOCK PURCHASE PLAN

The Company has elected to follow Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" (APB 25) and related Interpretations in accounting for its employee stock options because, as discussed below, the alternative fair value accounting provided for under SFAS No. 123 "Accounting for Stock-Based Compensation" ("Statement 123") requires use of option valuation models that were not developed for use in valuing employee stock options. Under APB 25, because the exercise price of the Company's employee stock options equals the market price of the underlying stock on the date of the grant, no compensation expense is recognized.

The Company has a long-term incentive plan (the "Incentive Plan") under which 300,000 shares of the Company's Class A Common Stock and 600,000 shares of the Company's Class B Common Stock are reserved for grants to key personnel for (i) incentive stock options, (ii) non-qualified stock options, (iii) stock appreciation rights, (iv) restricted stock and (v) performance awards, as defined by the Incentive Plan. Shares of Common Stock underlying outstanding options or performance awards are counted against the Incentive Plan's maximum shares while such options or awards are outstanding. Under the Incentive Plan, the options granted typically vest after a two year period and expire three years after full vesting. Options granted through December 31, 1998, have been granted at a price which approximates fair market value on the date of the grant. On December 11, 1998, the Company repriced certain Class B Common Stock grants made under the Incentive Plan, at a price which approximated the market price of the Class B Common Stock on that day.

The Company also has a Stock Purchase Plan which grants outside directors up to 7,500 shares of the Company's Common Stock. Under this Stock Purchase Plan, the options granted vest at the beginning of the upcoming calendar year and expire at the end of January following that calendar year.

F. LONG-TERM INCENTIVE PLAN AND STOCK PURCHASE PLAN (CONTINUED)

Prior to 1996, grants under the Incentive Plan and the Stock Purchase Plan were made with the Company's Class A Common Stock. In 1996, the Company amended its Incentive Plan and Stock Purchase Plan for grants to be made with Class A or Class B Common Stock.

Pro forma information regarding net income and earnings per share is required by Statement 123, which also requires that the information be determined as if the Company has accounted for its employee stock options granted subsequent to December 31, 1994 under the fair value method of Statement 123. The fair value for these options was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions for 1998, 1997 and 1996, respectively: risk-free interest rates of 4.57%, 5.82% and 5.43%; dividend yields of 0.55%, 0.32% and 0.50%; volatility factors of the expected market price of the Company's Class A Common Stock of 0.28, 0.28 and 0.33; and a weighted-average expected life of the options of 4.0, 4.5 and 2.0 years.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and which are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period. The Company's pro forma information follows (in thousands, except per common share data):

	YEAR ENDED DECEMBER 31,		
	1998	1997	1996
Pro forma income (loss) before extraordinary charge available to common stockholders	\$39,523	\$(3,174)	\$5,190
Pro forma income (loss) before extraordinary charge per common share:			
Basic	\$ 3.31	\$(0.27)	\$ 0.64
Diluted	\$ 3.20	\$(0.27)	\$ 0.62

GRAY COMMUNICATIONS SYSTEMS, INC.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

F. LONG-TERM INCENTIVE PLAN AND STOCK PURCHASE PLAN (CONTINUED)

A summary of the Company's stock option activity for Class A Common Stock, and related information for the years ended December 31, 1998, 1997, and 1996 is as follows (in thousands, except weighted average data):

	YEAR ENDED DECEMBER 31,					
	1998		1997		1996	
	OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE	OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE	OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE
Stock options outstanding -- beginning of year	92	\$ 7.43	297	\$ 8.74	394	\$ 8.26
Options granted	19	17.81	-0-		-0-	
Options exercised	(74)	7.08	(127)	7.17	(78)	6.62
Options forfeited	(1)	8.89	-0-		(9)	8.29
Options expired	-0-		(78)	12.83	(10)	6.78
Stock options outstanding -- end of year	===== 36	\$ 13.71	===== 92	\$ 7.43	===== 297	\$ 8.74
Exercisable at end of year	16	\$ 8.89	92	\$ 7.43	246	\$ 8.71
Weighted-average fair value of options granted during the year		\$ 5.59				

Exercise prices for Class A Common Stock options outstanding as of December 31, 1998, ranged from \$8.89 to \$17.81 for the Incentive Plan. The weighted-average remaining contractual life of the Class A Common Stock options outstanding for the Incentive Plan is 3.2 years.

A summary of the Company's stock option activity for Class B Common Stock, and related information for the years ended December 31, 1998, 1997, and 1996 is as follows (in thousands, except weighted average data):

	YEAR ENDED DECEMBER 31,					
	1998		1997		1996	
	OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE	OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE	OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE
Stock options outstanding -- beginning of year	630	\$15.80	102	\$10.58	-0-	
Options granted	589	14.43	528	16.80	102	\$ 10.58
Options exercised	(86)	11.05	-0-		-0-	
Options forfeited	(474)	16.95	-0-		-0-	
Stock options outstanding -- end of year	===== 659	\$14.36	===== 630	\$15.80	===== 102	\$ 10.58
Exercisable at end of year	84	\$14.65	79	\$10.58	-0-	
Weighted-average fair value of options granted during the year		\$ 3.95		\$ 5.40		\$2.15

GRAY COMMUNICATIONS SYSTEMS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

F. LONG-TERM INCENTIVE PLAN AND STOCK PURCHASE PLAN (CONTINUED)

Exercise prices for Class B Common Stock options outstanding as of December 31, 1998, ranged from \$10.58 to \$14.50 for the Incentive Plan and \$14.00 to \$16.13 for the Stock Purchase Plan. The weighted-average remaining contractual life of the Class B Common Stock options outstanding for the Incentive Plan and Stock Purchase Plan is 4.0 and 0.5 years, respectively.

G. INCOME TAXES

The Company uses the liability method in accounting for income taxes. Under this method, deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse.

Federal and state income tax expense (benefit) included in the consolidated financial statements are summarized as follows (in thousands):

	YEAR ENDED DECEMBER 31,		
	1998	1997	1996
Current			
Federal	\$ 414	\$ (1,620)	\$1,462
State and local	937	577	841
Deferred	26,793	1,283	(44)
	\$ 28,144	\$ 240	\$2,259
	=====	=====	=====

The total provision for income taxes for 1998 included a deferred tax charge of \$27.5 million which related to the exchange of WALB's assets for the assets of WEAU. For income tax purposes, the gain on the exchange of WALB qualified for deferred capital gains treatment under the "like-kind exchange" provision of Section 1031 of the Internal Revenue Code of 1986. The total provision for income taxes for 1996 included a tax benefit of \$2.2 million which related to an extraordinary charge on extinguishment of debt.

GRAY COMMUNICATIONS SYSTEMS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

G. INCOME TAXES (CONTINUED)

Significant components of the Company's deferred tax liabilities and assets are as follows (in thousands):

	DECEMBER 31,	
	1998	1997
Deferred tax liabilities:		
Net book value of property and equipment	\$ 6,597	\$ 2,670
Goodwill and other intangibles	45,546	6,281
Other	122	120
Total deferred tax liabilities	52,265	9,071
Deferred tax assets:		
Liability under supplemental retirement plan	528	526
Allowance for doubtful accounts	465	499
Difference in basis of assets held for sale	1,106	941
Federal operating loss carryforwards	3,825	4,412
State and local operating loss carryforwards	2,534	1,952
Other	457	290
Total deferred tax assets	8,915	8,620
Valuation allowance for deferred tax assets	(798)	(753)
Net deferred tax assets	8,117	7,867
Deferred tax liabilities, net	\$ 44,148	\$ 1,204

Approximately \$11.3 million in federal operating loss carryforwards will expire by the year ended December 31, 2012. Additionally, the Company has approximately \$56.0 million in state operating loss carryforwards.

A reconciliation of income tax expense at the statutory federal income tax rate and income taxes as reflected in the consolidated financial statements is as follows (in thousands):

	YEAR ENDED DECEMBER 31,		
	1998	1997	1996
Statutory rate applied to income (loss)	\$ 24,431	\$ (395)	\$ 1,625
State and local taxes, net of federal tax benefits	3,472	572	(7)
Permanent difference relating to sale of KTVE	-0-	-0-	602
Other items, net	241	63	39
	\$ 28,144	\$ 240	\$ 2,259

The Company made income tax payments of approximately \$1.5 million, \$275,000 and \$3.6 million during 1998, 1997 and 1996, respectively. At December 31, 1998 and 1997, the Company had current recoverable income taxes of approximately \$1.7 million and \$2.1 million, respectively.

H. RETIREMENT PLANS

PENSION PLAN

The Company has a retirement plan covering substantially all full-time employees. Retirement benefits are based on years of service and the employees' highest average compensation for five

GRAY COMMUNICATIONS SYSTEMS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

H. RETIREMENT PLANS (CONTINUED)

PENSION PLAN (CONTINUED)

consecutive years during the last ten years of employment. The Company's funding policy is to contribute annually the minimum amounts deductible for federal income tax purposes.

The following summarizes the plan's funded status and related assumptions (dollars in thousands):

	DECEMBER 31,	
	1998	1997
CHANGE IN BENEFIT OBLIGATION		
Benefit obligation at beginning of year	\$7,053	\$6,483
Service cost	616	429
Interest cost	496	443
Actuarial losses	203	31
Change in benefit obligation due to change in discount rate	303	-0-
Benefits paid	(349)	(333)
	-----	-----
Benefit obligation at end of year	\$8,322	\$7,053
	=====	=====
CHANGE IN PLAN ASSETS		
Fair value of plan assets at beginning of year	\$6,926	\$6,241
Actual return on plan assets	618	644
Company contributions	212	374
Benefits paid	(349)	(333)
	-----	-----
Fair value of plan assets at end of year	\$7,407	\$6,926
	=====	=====
COMPONENTS OF ACCRUED BENEFIT COSTS		
Underfunded status of the plan	\$ (915)	\$ (134)
Unrecognized net actuarial (gain) loss	297	(58)
Unrecognized net transition amount	(188)	(242)
Unrecognized prior service cost	(3)	(4)
	-----	-----
Accrued benefit cost	\$ (809)	\$ (438)
	=====	=====
WEIGHTED-AVERAGE ASSUMPTIONS AS OF DECEMBER 31		
Discount rate	6.8%	7.0%
Expected long-term rate of return on plan assets	6.8%	7.0%
Estimated rate of increase in compensation levels	5.0%	5.0%

The net periodic pension cost includes the following components (in thousands):

	YEAR ENDED DECEMBER 31,		
	1998	1997	1996
COMPONENTS OF NET PERIODIC PENSION COST			
Service cost	\$ 616	\$ 429	\$ 360
Interest cost	496	443	409
Expected return on plan assets	(475)	(433)	(393)
Amortization of prior service cost	(1)	(1)	(1)
Amortization of transition (asset) or obligation	(54)	(54)	(54)
	-----	-----	-----
Pension cost	\$ 582	\$ 384	\$ 321
	=====	=====	=====

GRAY COMMUNICATIONS SYSTEMS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

H. RETIREMENT PLANS (CONTINUED)

CAPITAL ACCUMULATION PLAN

Effective October 1, 1994, the Company adopted the Gray Communications Systems, Inc. Capital Accumulation Plan (the "Capital Accumulation Plan") for the purpose of providing additional retirement benefits for substantially all employees. The Capital Accumulation Plan is intended to meet the requirements of section 401(k) of the Internal Revenue Code of 1986.

On November 14, 1996, the Company amended its Capital Accumulation Plan to allow an investment option in the Company's Class B Common Stock. The amendment also allowed for the Company's percentage match to be made by a contribution of the Company's Class B Common Stock, effective in 1997. On December 13, 1996, the Company reserved 300,000 shares of the Company's Class B Common Stock for issuance under the Capital Accumulation Plan.

Employee contributions to the Capital Accumulation Plan, not to exceed 6% of the employees' gross pay, are matched by Company contributions. Until 1997, the Company's percentage match was made by a contribution of the Company's Class A Common Stock. Since 1997, the Company's percentage match has been made by a contribution of the Company's Class B Common Stock. The Company's percentage match amount is declared by the Company's Board of Directors before the beginning of each plan year. The Company's percentage match was 50% for the three years ended December 31, 1998. The Company contributions vest, based upon each employee's number of years of service, over a period not to exceed five years.

Company matching contributions aggregating \$491,524, \$419,670 and \$262,426 were charged to expense for 1998, 1997 and 1996, respectively, for the issuance of 29,305 and 31,311 Class B shares and 19,837 Class A shares, respectively.

I. COMMITMENTS AND CONTINGENCIES

The Company has various operating lease commitments for equipment, land and office space. The Company has also entered into commitments for various television film exhibition rights for which the license periods have not yet commenced. Rent expense resulting from operating leases for the years ended December 31, 1998, 1997 and 1996 were \$1.8 million, \$1.4 million and \$501,000, respectively. Future minimum payments under operating leases with initial or remaining noncancelable lease terms in excess of one year and obligations under film exhibition rights for which the license period have not yet commenced are as follows (in thousands):

	LEASE	FILM	TOTAL
1999	\$1,411	\$1,550	\$ 2,961
2000	877	3,656	4,533
2001	661	2,428	3,089
2002	344	1,535	1,879
2003	137	302	439
Thereafter	714	421	1,135
	-----	-----	-----
	\$4,144	\$9,892	\$14,036
	=====	=====	=====

The Company is subject to legal proceedings and claims which 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.

GRAY COMMUNICATIONS SYSTEMS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

J. INFORMATION ON BUSINESS SEGMENTS

The Company operates in three business segments: broadcasting, publishing and paging. The broadcasting segment operates ten television stations located in the southeastern and midwestern United States at December 31, 1998. The publishing segment operates three daily newspapers in three different markets, and an area weekly advertising only publication in Georgia. The paging operations are located in Florida, Georgia, and Alabama. The following tables present certain financial information concerning the Company's three operating segments (in thousands):

	YEAR ENDED DECEMBER 31,		
	1998	1997	1996
(IN THOUSANDS)			
Operating revenues:			
Broadcasting	\$ 91,007	\$ 72,300	\$ 54,981
Publishing	29,330	24,536	22,845
Paging	8,553	6,712	1,479
	-----	-----	-----
	\$128,890	\$103,548	\$ 79,305
	=====	=====	=====
Operating income:			
Broadcasting (1)	\$ 21,113	\$ 17,509	\$ 14,106
Publishing	2,867	2,206	1,980
Paging	947	1,015	(7)
	-----	-----	-----
Total operating income (1)	24,927	20,730	16,079
Gain on disposition of television stations	70,572	-0-	5,671
Miscellaneous income and (expense), net	(242)	(31)	33
Interest expense	(25,454)	(21,861)	(11,689)
	-----	-----	-----
Income (loss) before income taxes	\$ 69,803	\$ (1,162)	\$ 10,094
	=====	=====	=====

Operating income is total operating revenue less operating expenses, excluding gain on disposition of television stations, miscellaneous income and expense (net) and interest. Corporate and administrative expenses are allocated to operating income based on net segment revenues.

	YEAR ENDED DECEMBER 31,		
	1998	1997	1996
(IN THOUSANDS)			
Depreciation and amortization expense:			
Broadcasting	\$14,713	\$11,024	\$ 5,554
Publishing	1,554	1,973	1,730
Paging	1,773	1,480	329
	-----	-----	-----
Corporate	18,040	14,477	7,613
	77	42	50
	-----	-----	-----
Total depreciation and amortization expense	\$18,117	\$14,519	\$ 7,663
	=====	=====	=====

GRAY COMMUNICATIONS SYSTEMS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

K. SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

	FISCAL QUARTERS			
	FIRST	SECOND	THIRD	FOURTH
(IN THOUSANDS, EXCEPT FOR PER SHARE DATA)				
YEAR ENDED DECEMBER 31, 1998:				
Operating revenues	\$27,982	\$32,061	\$31,845	\$37,002
Operating income (1)	4,868	7,210	5,020	7,829
Net income (loss)	(1,483)	837	41,830	475
Net income (loss) available to common stockholders	(1,842)	478	41,484	221
Basic income (loss) per share	(0.16)	0.04	3.48	0.02
Diluted income (loss) per share	\$ (0.16)	\$ 0.04	\$ 3.31	\$ 0.02
YEAR ENDED DECEMBER 31, 1997:				
Operating revenues	\$22,761	\$25,499	\$25,984	\$29,304
Operating income	4,337	6,124	4,271	5,998
Net income (loss)	(461)	622	(1,162)	(401)
Net income (loss) available to common stockholders	(811)	272	(1,513)	(760)
Basic income (loss) per share	(0.07)	0.02	(0.13)	(0.06)
Diluted income (loss) per share	\$ (0.07)	\$ 0.02	\$ (0.13)	\$ (0.06)

(1) Operating income excludes \$70.6 million gain on exchange of television station recognized from the disposition of WALB.

Because of the method used in calculating per share data, the quarterly per share data will not necessarily add to the per share data as computed for the year.

The third quarter of 1998 includes the Busse-WALB Transactions. As a result of the exchange of WALB for WEAU, the Company recognized a pre-tax gain of approximately \$70.6 million and estimated deferred income taxes of approximately \$27.5 million (SEE NOTE B).

On August 20, 1998, the Board of Directors declared a 50% stock dividend, payable on September 30, 1998, to stockholders of record of the Class A Common Stock and Class B Common Stock on September 16, 1998. This stock dividend effected a three for two stock split. All applicable share and per share data have been adjusted to give effect to the stock split.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.

Set forth below is certain information with respect to the directors and executive officers of the Company as of March 11, 1999:

NAME	DIRECTOR SINCE	EXECUTIVE OFFICER SINCE	AGE	POSITION
J. Mack Robinson	1993	1996	75	Director, President and Chief Executive Officer
Robert S. Prather, Jr.	1993	1996	54	Director and Executive Vice President
Robert A. Beizer	N/A	1996	59	Vice President for Law and Development and Secretary
James C. Ryan	N/A	1998	38	Vice President - Finance and Chief Financial Officer
Thomas J. Stultz	N/A	1996	47	Vice President and President-Publishing Division
Wayne M. Martin	N/A	1998	52	Regional Vice President - Television
William E. Mayher, III	1990	N/A	60	Chairman of the Board of Directors
Richard L. Boger	1991	N/A	52	Director
Hilton H. Howell, Jr.	1993	N/A	37	Director
Zell Miller	1999	N/A	66	Director
Howell W. Newton	1991	N/A	52	Director
Hugh Norton	1987	N/A	66	Director
Harriett J. Robinson	1997	N/A	68	Director

J. MACK ROBINSON has served as a director of the Company since 1993 and as the Company's President and Chief Executive Officer since 1996. Mr. Robinson has served as Chairman of the Board of Bull Run Corporation, a principal stockholder of the Company since 1994, Chairman of the Board and President of Delta Life Insurance Company and Delta Fire and Casualty Insurance Company since 1958, President of Atlantic American Corporation, an insurance holding company, from 1988 until 1995 and Chairman of the Board of Atlantic American Corporation since 1974. He serves as a director of the following companies: Bankers Fidelity Life Insurance Company, American Independent Life Insurance Company, Georgia Casualty & Surety Company, American Southern Insurance Company and American Safety Insurance Company. He is director EMERITUS of Wachovia Corporation. He is a member of the Executive Committee and Management Personnel Committee of the Company's Board of Directors. Mr. Robinson is the husband of Harriett J. Robinson.

ROBERT S. PRATHER, JR. has served as a director of the Company since 1993 and as Executive Vice President of the Company since 1996. He has served as President and Chief Executive Officer and a director of Bull Run Corporation since 1992. He serves as a director of the following companies: Host Communications, Inc., Capital Sports Properties, Inc., Universal Sports America, Inc., Rawlings Sporting Goods Company, Inc. and The Morgan Group, Inc. He is a member of the Executive Committee and Management Personnel Committee of the Company's Board of Directors.

ROBERT A. BEIZER has served as Vice President for Law and Development and Secretary of the Company since 1996. From June 1994 to February 1996 he was of counsel to Venable, Baetjer, Howard & Civiletti, a law firm, in its regulatory and legislative practice group. From 1990 to 1994, Mr. Beizer was a partner in the law firm of Sidley & Austin and was head of their communications practice group in Washington, D.C. He is a past president of the Federal Communications Bar Association and has served as a member of the ABA House of Delegates.

JAMES C. RYAN has served as the Company's Vice President-Finance and Chief Financial Officer since October 1998. He was the Chief Financial Officer of Busse Broadcasting Corporation from 1987 until its acquisition by the Company in 1998.

THOMAS J. STULTZ has served as Vice President of the Company and President of the Company's Publishing Division since 1996. Prior to joining the Company, he served as Vice President of Multimedia, Inc. from 1988 to 1995, having responsibility for developing and coordinating Multimedia's newspaper marketing initiatives and directly supervising several Multimedia daily and non-daily publications.

WAYNE M. MARTIN has served as the Company's Regional Vice President-Television since July 1998. He was also appointed President of WVLTV-TV, the Company's subsidiary in Knoxville, Tennessee. Since 1993, Mr. Martin has served as President of Gray Kentucky Television, Inc., a subsidiary of the Company, which operates WKYT-TV, in Lexington, Kentucky and WYMT-TV, in Hazard, Kentucky. Wayne has over twelve years of experience in the broadcast industry.

WILLIAM E. MAYHER, III has served as a director of the Company since 1990 and was a neurosurgeon in Albany, Georgia from 1970 to 1998. He also serves as a director of the following: Medical College of Georgia Foundation, American Association of Neurological Surgeons, Gaston Loughlin, Inc. and Palmyra Medical Centers. Dr. Mayher is a member of the Executive Committee and Management Personnel Committee of the Company's Board of Directors and has served as Chairman of the Company's Board of Directors since August 1993.

RICHARD L. BOGER has served as a director of the Company since 1991. Mr. Boger has also been President and Chief Executive Officer of Export Insurance Services, Inc., an insurance organization, and a director of CornerCap Group of Funds, a "Series" investment company since prior to 1992. Mr. Boger is a member of the Executive Committee of the Company's Board of Directors and he is Chairman of the Management Personnel Committee of the Company's Board of Directors.

HILTON H. HOWELL, JR. has served as a director of the Company since 1993. Mr. Howell has served as President and Chief Executive Officer of Atlantic American Corporation, an insurance holding company, since 1995 and Executive Vice President from 1992 to 1995. He has been Executive Vice President and General Counsel of Delta Life Insurance Company and Delta Fire and Casualty Insurance Company since 1991, and Vice Chairman and Executive Vice President of Bankers Fidelity Life Insurance Company and Georgia Casualty & Surety Company since 1992. He has been a director, Vice President and Secretary of Bull Run Corporation since 1994. He also serves as a director of the following companies: Atlantic American Corporation, Bankers Fidelity Life Insurance Company, American Independent Life Insurance Company, Delta Life Insurance Company, Delta Fire and Casualty Insurance Company, Georgia Casualty & Surety Company, American Southern Insurance Company, and American Safety Insurance Company. Mr. Howell is a member of the Audit Committee of the Company's Board of Directors. He is the son-in-law of J. Mack Robinson and Harriett J. Robinson.

ZELL MILLER has served as a director of the Company since January 1999. Mr. Miller was Governor of the State of Georgia from January 1991 to January 1999. He also serves as a director of the following companies: Post Properties, Inc., Georgia Power Company, United Community Banks, Inc. and Law Companies Group. He is a professor at Young Harris College and Emory University.

HOWELL W. NEWTON has served as a director of the Company since 1991. He has been President and Treasurer of Trio Manufacturing Co., a textile manufacturing company since 1978. Mr. Newton is Chairman of the Audit Committee of the Company's Board of Directors.

HUGH NORTON has served as a director of the Company since 1987. Mr. Norton has served as President of Norco, Inc., an insurance agency since 1973. He is one of the founders and directors of Community Bank of Georgia. Mr. Norton is also a real estate developer in Destin, Florida. He is a member of the Management Personnel Committee of the Company's Board of Directors.

HARRIETT J. ROBINSON has served as a director of the Company since 1997 and she has been a director of Atlantic American Corporation since 1989. Mrs. Robinson has also been a director of Delta Life Insurance Company and Delta Fire and Casualty Insurance Company since 1967. Mrs. Robinson is the wife of J. Mack Robinson and mother-in-law of Hilton H. Howell, Jr.

COMPLIANCE WITH SECTION 16(A) OF THE SECURITIES EXCHANGE ACT OF 1934

Section 16(a) of the Securities Exchange Act of 1934 requires the directors, executive officers and persons who own more than ten percent of a registered class of a company's equity securities to file with the Securities and Exchange Commission ("SEC") initial reports of ownership (Form 3) and reports of changes in ownership (Forms 4 and 5) of such class of equity securities. Officers, directors and greater than ten percent shareholders of the Company are required by SEC regulation to furnish the Company with copies of all such Section 16(a) reports that they file.

To the Company's knowledge, based solely on its review of the copies of such reports furnished to the Company during the year ended December 31, 1998, all Section 16(a) filing requirements applicable to its officers, directors and ten percent beneficial owners were met.

ITEM 11. EXECUTIVE COMPENSATION.

The following table sets forth a summary of the compensation of the Company's President and Chief Executive Officer and the other executive officers whose annual compensation exceeded \$100,000 during the year ended December 31, 1998 (the "named executives").

SUMMARY COMPENSATION TABLE

NAME AND PRINCIPAL POSITION	YEAR	ANNUAL COMPENSATION		LONG TERM COMPENSATION AWARDS		SECURITIES UNDERLYING OPTIONS		ALL OTHER COMPENSATION (\$)	
		SALARY (\$)	BONUS (\$)	RESTRICTED STOCK AWARDS	SARS (#) (1)				
J. Mack Robinson, (3) President, Chief Executive Officer and a Director	1998	72,308	-0-	-0-	125,000	(2)	13,000	(4)	
	1997	-0-	-0-	-0-	75,000	(5)	14,620	(4)	
	1996	-0-	-0-	-0-	11,250	(6)	9,300	(4)	
Robert S. Prather, Jr., (7) Executive Vice President and a Director	1998	-0-	-0-	-0-	125,337	(2)	13,000	(4)	
	1997	-0-	-0-	-0-	75,000	(5)	14,620	(4)	
	1996	-0-	-0-	-0-	11,250	(6)	8,800	(4)	
Robert A. Beizer, Vice President-Law & Development	1998	215,000	-0-	-0-	21,000	(2)	13,080	(9)	
	1997	210,000	-0-	-0-	10,500		6,619	(9)	
	1996	169,231	-0-	-0-	22,500		-0-		
James C. Ryan, (10) Vice President- Finance and Chief Financial Officer	1998	34,269	5,000	-0-	22,500	(2)	15,603	(11)	
Thomas J. Stultz, Vice President, President-Publishing Division	1998	196,000	35,000	-0-	22,500	(2)	7,166	(8)	
	1997	187,000	25,000	-0-	22,500	(5)	59,199	(8)	
	1996	152,788	150,000	-0-	-0-		-0-		
Wayne M. Martin, (12) Regional Vice President-Television	1998	219,326	170,454	-0-	11,250	(2)	8,829	(13)	
Joseph A. Carriere, (14) Vice President- Television	1998	125,524	-0-	-0-	-0-	(2)	203,766	(15)	
	1997	187,000	-0-	-0-	7,500	(16)	6,245	(17)	
	1996	172,692	100,000	-0-	-0-		5,698	(17)	

(1) On August 20, 1998, the Company's Board of Directors declared a 50% stock dividend, payable on September 30, 1998, to stockholders of record of the Class A and Class B Common Stock on September 16, 1998. This stock dividend was effected by means of a three for two stock split. All applicable share and per share data have been adjusted to give effect to the stock split.

(2) These awards are set forth below in detail in the table titled "Option/SAR Grants in 1998."

(3) Mr. Robinson was appointed President and Chief Executive Officer of the Company in September 1996, but received no salary for this position until September 1998. Mr. Robinson is compensated at an annual salary of \$200,000.

- (4) Represents compensation paid for services rendered as a member of the Company's Board of Directors.
- (5) Represents stock options to purchase Class B Common Stock pursuant to the Company's 1992 Long Term Incentive Plan. This 1997 stock option grant was replaced by a repricing grant, effective December 11, 1998. The December 11, 1998 grant repriced the 1997 grant at a price which approximated the market price of the Company's Class B Common Stock on December 11, 1998. The repriced grant was included in 1998 stock options granted as a 1998 grant.
- (6) Represents stock options to purchase Class B Common Stock under the Company's Non-Employee Director Stock Option Plan.
- (7) Mr. Prather became an officer of the Company in September 1996.
- (8) \$4,000, \$1,963 and \$1,203 represent payments or accruals by the Company in 1998 for matching contributions to the Company's 401(k) plan, term life insurance premiums and long term disability premiums, respectively. \$54,700, \$3,596 and \$903 represent payments or accruals by the Company in 1997 for relocation costs, matching contributions to the Company's 401(k) plan and long term disability premiums, respectively.
- (9) \$4,000, \$5,589 and \$3,491 represent payments or accruals by the Company in 1998 for matching contributions to the Company's 401(k) plan, term life insurance premiums and long term disability premiums, respectively. \$4,000 and \$2,619 represent payments or accruals by the Company in 1997 for matching contributions to the Company's 401(k) plan and long term disability premiums, respectively.
- (10) Mr. Ryan joined the Company on October 1, 1998, compensated at an annual salary of \$135,000.
- (11) Represents payments or accruals by the Company for relocation costs.
- (12) Mr. Martin has served as the Company's Regional Vice President-Television since July 1998. He was also appointed President of WVLTV, the Company's subsidiary in Knoxville, Tennessee. Prior to his appointment as an executive officer, Mr. Martin has served as President of Gray Kentucky Television, Inc., a subsidiary of the Company, which operates WKYT-TV, in Lexington, Kentucky and WYMT-TV, in Hazard, Kentucky.
- (13) \$4,000, \$3,249 and \$1,580 represent payments or accruals by the Company for matching contributions to the Company's 401(k) plan, term life insurance premiums and long term disability premiums, respectively.
- (14) Mr. Carriere resigned from the Company, effective August 1, 1998.
- (15) \$190,000, \$2,919, \$5,291 and \$5,556 represent payments or accruals by the Company for consulting, matching contributions to the Company's 401(k) plan, term life insurance premiums and health insurance premiums, respectively.
- (16) Upon Mr. Carriere's resignation, this unvested stock option grant was forfeited.
- (17) \$4,000 and \$2,245 represent payments or accruals by the Company in 1997 for matching contributions to the Company's 401(k) plan and term life insurance premiums, respectively. \$3,750 and \$1,948 represent payments or accruals by the Company in 1996 for matching contributions to the Company's 401(k) plan and term life insurance premiums, respectively.

STOCK OPTIONS GRANTED

The following table contains information on stock options granted to the Company during the year ended December 31, 1998. Under the Company's 1992 Long Term Incentive Plan (the "Incentive Plan"), all officers and key employees are eligible for grants of stock options and other stock-based awards. Options granted are exercisable over a three-year period beginning on the second anniversary of the grant date and expire one month after termination of employment. The total number of shares issuable under the Incentive Plan is not to exceed 900,000 shares of which 300,000 are Class A Common Stock and 600,000 are Class B Common Stock, subject to adjustment in the event of any change in the outstanding shares of such stock by reason of a stock dividend, stock split, recapitalization, merger, consolidation or other similar changes generally affecting shareholders of the Company.

The Incentive Plan is administered by the Incentive Plan Committee which consists of members of the Management Personnel Committee of the Board of Directors who are not eligible for selection as participants under the Incentive Plan. The Incentive Plan is intended to provide additional incentives and motivation for the Company's employees. The Incentive Plan Committee, by majority action thereof, is authorized in its sole discretion to determine the individuals to whom the benefits will be granted, the type and amount of such benefits and the terms thereof; and to prescribe, amend and rescind rules and regulations relating to the Incentive Plan, among other things.

On August 20, 1998, the Board of Directors declared a 50% stock dividend, payable on September 30, 1998, to stockholders of record of the Class A Common Stock and Class B Common Stock on September 16, 1998. This stock dividend was effected by means of a three for two stock split. All applicable share and per share data have been adjusted to give effect to the stock split.

OPTION/SAR GRANTS IN 1998

NAME	CLASS OF COMMON STOCK	INDIVIDUAL GRANTS			EXERCISE OR BASE PRICE (\$/SHARE)	EXPIRATION DATE	POTENTIAL REALIZABLE VALUE AT ASSUMED ANNUAL RATES OF STOCK PRICE APPRECIATION FOR OPTION TERM (1)	
		NUMBER OF SECURITIES UNDERLYING OPTIONS GRANTED	% OF TOTAL OPTIONS GRANTED TO EMPLOYEES IN 1998	IN			5% (\$)	10% (\$)
J. Mack Robinson	Class A	10,000	(2)	1.8	17.81	11/19/03	49,213	108,747
	Class B	40,000	(2)	7.1	14.00	11/19/03	154,718	341,886
	Class B	75,000	(3)	13.3	14.50	9/25/02	234,363	504,709
Robert S. Prather, Jr.	Class A	9,337	(2)	1.7	17.81	11/19/03	45,950	101,537
	Class B	41,000	(2)	7.3	14.00	11/19/03	158,586	350,433
	Class B	75,000	(3)	13.3	14.50	9/25/02	234,363	504,709
Robert A. Beizer	Class B	10,500	(4)	1.9	16.08	2/12/03	46,647	103,079
	Class B	10,500	(5)	1.9	14.50	2/12/03	42,064	92,950
James C. Ryan	Class B	11,250	(6)	2.0	16.13	10/5/03	50,119	110,750
	Class B	11,250	(5)	2.0	14.50	10/5/03	45,068	99,589
Thomas J. Stultz	Class B	22,500	(3)	4.0	14.50	9/25/02	70,309	151,413
Wayne M. Martin	Class B	11,250	(3)	2.0	14.50	9/25/02	35,154	75,706
Joseph A. Carriere	N/A	N/A		N/A	N/A	N/A	N/A	N/A

(1) Amounts reported in these columns represent amounts that may be realized upon exercise of options immediately prior to the expiration of their term assuming the specified compounded

rates of appreciation (5% and 10%) on the Class A or Class B Common Stock over the term of the options. These numbers are calculated based on rules promulgated by the SEC and do not reflect the Company's estimate of future stock price growth. Actual gains, if any, on stock option exercises and Class A or Class B Common Stock holdings will be dependent on the timing of such exercise and the future performance of the Class A or Class B Common Stock. There can be no assurance that the rates of appreciation assumed in this table can be achieved or that the amounts reflected will be received by the option holder.

- (2) Stock options granted effective November 19, 1998 pursuant to the Company's Incentive Plan.
- (3) Effective December 11, 1998, the Company repriced certain 1997 Class B Common Stock grants made pursuant to the Incentive Plan, at a price which approximated the market price of the Company's Class B Common Stock on that day. These repriced grants effectively replaced the stock option grants made on September 25, 1997.
- (4) Stock options granted effective February 12, 1998 pursuant to the Company's Incentive Plan. This stock option grant was replaced on December 11, 1998, by a repricing grant as described in (5).
- (5) Effective December 11, 1998, the Company repriced certain 1998 Class B Common Stock grants made pursuant to the Incentive Plan, at a price which approximated the market price of the Company's Class B Common Stock on that day. These repriced grants effectively replaced the earlier 1998 stock option grant.
- (6) Stock options granted effective October 5, 1998 pursuant to the Company's Incentive Plan. This stock option grant was replaced on December 11, 1998, by a repricing grant as described in (5).

STOCK OPTIONS EXERCISED

The following table sets forth information about stock options that were exercised during 1998 and the number of shares and the value of grants outstanding as of December 31, 1998 for each named executive.

AGGREGATED OPTION EXERCISES IN 1998
AND DECEMBER 31, 1998 OPTION VALUES

NAME	CLASS OF COMMON STOCK	SHARES ACQUIRED ON EXERCISE	VALUE REALIZED\$	NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS AT 12/31/98		VALUE OF UNEXERCISED IN-THE-MONEY OPTIONS AT 12/31/98 (\$) (1)	
				EXERCISABLE	UNEXERCISABLE	EXERCISABLE	UNEXERCISABLE
J. Mack Robinson (2)	Class A	-0-	-0-	-0-	10,000	-0-	5,000
	Class B	11,250	61,875	-0-	115,000	-0-	-0-
Robert S. Prather, Jr. (2)	Class A	-0-	-0-	-0-	9,337	-0-	4,669
	Class B	11,250	61,875	-0-	116,000	-0-	-0-
Robert A. Beizer James C. Ryan	Class B	-0-	-0-	22,500	21,000	69,845	12,469
	Class B	-0-	-0-	-0-	11,250	-0-	-0-
Thomas J. Stultz	Class B	-0-	-0-	-0-	22,500	-0-	-0-
Wayne M. Martin (3)	Class A	6,750	68,531	-0-	-0-	-0-	-0-
	Class B	-0-	-0-	-0-	11,250	-0-	-0-
Joseph A. Carriere (3)	Class A	5,625	65,547	-0-	-0-	-0-	-0-

(1) Value is based on the closing price of the Company's Class A and Class B Common Stock of \$18.31 and \$13.69, respectively at December 31, 1998, less the exercise price.

(2) On December 12, 1996, the Company granted Messrs. Robinson and Prather an option to purchase 11,250 shares each of the Company's Class B Common Stock, at an exercise price of \$10.58 per share, pursuant to the Company's Non-employee Director Stock Option Plan. The options were exercised in 1998.

(3) On March 30, 1995, the Company granted Messrs. Martin and Carriere an option to purchase 6,750 and 5,625 shares of the Company's Class A Common Stock, respectively, at an exercise price of \$8.89 per share, pursuant to the Company's Incentive Plan. The options were exercised in 1998.

SUPPLEMENTAL PENSION PLAN

The Company has entered into agreements with certain key employees to provide these employees with supplemental retirement benefits. The benefits will be disbursed after retirement in contractually predetermined payments of equal monthly amounts over the employee's life, or the life of a surviving eligible spouse, for a maximum of 15 years. The Company maintains life insurance coverage on these individuals in adequate amounts to fund the agreements.

RETIREMENT PLAN

The Company sponsors a defined benefit pension plan, intended to be tax qualified, for certain of its employees and the employees of any of its subsidiaries which have been designated as participating

companies under the plan. A participating employee who retires on or after attaining age 65 and who has completed five years of service upon retirement may be eligible to receive during his lifetime, in the form of monthly payments, an annual pension equal to (i) 22% of the employee's average earnings for the highest five consecutive years during the employee's final 10 years of employment multiplied by a factor, the numerator of which is the employee's years of service credited under the plan before 1994 and the denominator of which is the greater of 25 or the years of service credited under the plan, plus (ii) .9% of the employee's monthly average earnings for the highest five consecutive years in the employee's final 10 years of employment added to .6% of monthly average earnings in excess of Social Security covered compensation, and multiplied by the employee's years of service credited under the plan after 1993, with a maximum of 25 years minus years of service credited under (i) above. For participants as of December 31, 1993, there is a minimum benefit equal to the projected benefit under (i) at that time. For purposes of illustration, pensions estimated to be payable upon retirement of participating employees in specified salary classifications are shown in the following table:

PENSION PLAN TABLE

REMUNERATION (1)	YEARS OF SERVICE					
	10	15	20	25	30	35
\$ 15,000	\$ 1,335	\$ 1,995	\$ 2,655	\$ 3,315	\$ 3,300	\$ 3,300
25,000	2,225	3,325	4,425	5,525	5,500	5,500
50,000	5,016	7,216	9,416	11,616	11,000	11,000
75,000	7,991	11,291	14,591	17,891	16,500	16,500
100,000	10,966	15,366	19,766	24,166	22,000	22,000
150,000	16,916	23,516	30,116	36,716	33,000	33,000
200,000	19,416	28,216	37,016	45,816	36,667	37,714
250,000 and above	20,262	29,908	39,554	49,199	40,191	41,339

(1) Five-year average annual compensation.

Employees may become participants in the plan, provided that they have attained age 21 and have completed one year of service. Average earnings are based upon the salary paid to a participating employee by a participating company. Pension compensation for a particular year as used for the calculation of retirement benefits includes salaries, overtime pay, commissions and incentive payments received during the year and the employee's contribution to the Capital Accumulation Plan (as defined herein). Pension compensation for 1998 differs from compensation reported in the Summary Compensation Table in that pension compensation includes any annual incentive awards received in 1998 for services in 1997 rather than the incentive awards paid in 1999 for services in 1998. The maximum annual compensation considered for pension benefits under the plan in 1998 was \$160,000.

As of December 31, 1998, the named executive officers of the Company have the following years of credited service:

NAME	YEARS OF CREDITED SERVICE
Thomas J. Stultz	2
Robert A. Beizer	2
Wayne M. Martin	4
Joseph A. Carriere	4

CAPITAL ACCUMULATION PLAN

Effective October 1, 1994, the Company adopted the Gray Communications Systems, Inc. Capital Accumulation Plan (the "Capital Accumulation Plan") for the purpose of providing additional retirement benefits for substantially all employees. The Capital Accumulation Plan is intended to meet the requirements of Section 401(k) of the Internal Revenue Code of 1986, as amended.

Contributions to the Capital Accumulation Plan are made by the employees of the Company. The Company matches a percentage of each employee's contribution which does not exceed 6% of the employee's gross pay. The percentage match is declared by the Board of Directors before the beginning of each Capital Accumulation Plan Year and was made with a contribution of the Class A Common Stock through the year ended December 31, 1996 and thereafter has been and will be made with Class B Common Stock. The percentage match declared for the year ended December 31, 1998 was 50%. The Company matching contributions vest based upon an employee's number of years of service, over a period not to exceed five years.

COMPENSATION OF DIRECTORS

The standard arrangement for directors' fees is set forth in the table below.

DESCRIPTION	AMOUNT
Chairman of the Board annual retainer fee	\$18,000
Director's annual retainer fee	12,000
Director's fee per Board of Directors' meeting	1,000
Chairman of the Board fee per Board of Directors' meeting	1,200
Committee Chairman fee per committee meeting	1,200
Committee member fee per Committee meeting	1,000

Directors are paid 40% of the above fee arrangement for participation by telephone in any meeting of the Board of Directors or any committee thereof.

EMPLOYMENT CONTRACTS AND TERMINATION OF EMPLOYMENT

Robert A. Beizer and the Company entered into an employment agreement dated February 12, 1996, for a two-year term which automatically extends for three successive one-year periods, subject to certain termination provisions. The agreement provides that Mr. Beizer shall be employed as Vice President for Law and Development of the Company with an initial annual base salary of \$200,000 and a grant of options to purchase 22,500 shares of Class A Common Stock with an exercise price of \$12.917 per share under the Incentive Plan at the inception of his employment. In December 1996, the Board of Directors approved an amendment to Mr. Beizer's contract which replaced this option with the grant of an option to purchase 22,500 shares of Class B Common Stock with an exercise price of \$10.583 per share. The amended Agreement provides that Mr. Beizer's base salary shall be increased yearly based upon a cost of living index and he will receive non-qualified options to purchase 10,500 shares of Class B Common Stock annually during the term of the agreement at an exercise price per share equal to the fair market value of the Class B Common Stock on the date of the grant. Accordingly, on February 12, 1997, 1998, and 1999, he was granted options to purchase an additional 10,500 shares of Class B Common Stock at \$12.50, \$16.08 and \$14.1875 per share, respectively. All options granted are exercisable over a three-year period beginning upon the second anniversary of the grant date. If there is a "change of control" of the Company, Mr. Beizer will be paid a lump sum amount equal to his then current base salary for the remaining term of the agreement and will be granted any remaining stock options to which he would have been entitled. For purposes of the agreement, "change of control" is defined as any change in the control of the Company that would be required to be reported in response to Item 6(e) of Schedule 14A

promulgated under the Securities Exchange Act of 1934. Mr. Beizer has agreed that during the term of his agreement and for two years thereafter, he will be subject to certain non-competition provisions.

The Management Personnel Committee recommended, and Mr. Beizer agreed, to amend his employment contract to provide for options for Class B Common Stock rather than Class A Common Stock since it had converted the Company's matching contribution under the Capital Accumulation Plan and the non-employee director options to Class B Common Stock. In an effort to make all future options consistent, the Management Personnel Committee has recommended that all future officer and employee executive stock options entitle the holders thereof to purchase Class B Common Stock

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

Richard L. Boger, William E. Mayher, III, Robert S. Prather, Jr., Hugh Norton and J. Mack Robinson are the members of the Management Personnel Committee which serves as the Compensation Committee of the Company. Messrs. Robinson and Prather are President and Chief Executive Officer and Executive Vice President of the Company, respectively.

J. Mack Robinson, President of the Company serves on the Compensation Committee of Bull Run Corporation ("Bull Run"). Mr. Robinson and Robert S. Prather, Jr., President of Bull Run and Executive Vice President of the Company serve on the Compensation Committee of the Company.

Gray Kentucky Television, Inc., a subsidiary of the Company ("Gray Kentucky"), is a party to a rights sharing agreement with Host Communications, Inc. ("Host") and certain other parties not affiliated with the Company, pursuant to which the parties agreed to exploit Host's rights to broadcast and market certain University of Kentucky football and basketball games and related activities. Pursuant to such agreement, Gray Kentucky is licensed to broadcast certain University of Kentucky football and basketball games and related activities. Under this agreement, Gray Kentucky also provides Host with production and certain marketing services and Host provides accounting and various marketing services. During the year ended December 31, 1998, the Company received approximately \$100,000 from this joint venture. See Item 13 "Certain Relationships and Related Transactions" for a description of certain relationships between Messrs. Prather and Robinson and the Company, Bull Run, Host and CSP (as defined below).

Bull Run currently owns 51.5% of the outstanding common stock of Capital Sports Properties, Inc. ("CSP"). CSP's assets consist of all of the outstanding preferred stock of Host and 49.0% of Host's outstanding common stock. Bull Run's direct common equity ownership in Host, plus Bull Run's indirect common equity ownership in Host through its investment in CSP, was 32.6% as of December 31, 1998. Robert S. Prather, Jr., Executive Vice President and a member of the Company's Board of Directors, is a member of the Board of Directors of both CSP, Bull Run and Host.

The Company's Board of Directors approved payments to Bull Run of a finders fee of approximately \$1,980,000 in connection with the acquisition of all of the outstanding capital stock of Busse Broadcasting Corporation ("Busse"). The purchase price was \$112,000,000 plus Busse's cash balance as of June 30, 1998. The purchase price includes the assumption of Busse's indebtedness, including its 11 5/8% Senior Secured Notes due 2000. Immediately prior to the Company's acquisition of Busse, Cosmos Broadcasting Corporation ("Cosmos") acquired the assets of WEAU-TV ("WEAU") from Busse in exchange for the assets of WALB-TV, Inc. ("WALB"), the Company's NBC affiliate in Albany, Georgia. In exchange for the assets of WALB, the Company received the assets of WEAU, which were valued at \$66,000,000 and approximately \$12,000,000 in cash for a total value of \$78,000,000. The finders fee was allocated, at \$1,200,000 for the Busse transaction and \$780,000 for the WALB transaction.

ISSUANCE OF PREFERRED STOCK AND WARRANTS

The Company paid cash dividends on the Series A Preferred Stock and Series B Preferred Stock of \$800,000 and \$63,750, respectively to Bull Run in 1998. Bull Run is the only owner of the Series A Preferred Stock of the Company and owns 50% of the outstanding Series B Preferred Stock of the Company. Mr. Robinson and certain affiliates own the remaining 50% of the Series B Preferred Stock of the Company. In addition, the Company issued 25.4692 shares of Series B Preferred Stock to Bull Run and 25.4692 shares of Series B Preferred Stock pro rata to Mr. Robinson and certain affiliates as dividends on the Series B Preferred Stock in 1998. Each share of Series B Preferred Stock is valued at \$10,000 per share. Of the total amount of 1,110.9384 Series B Preferred Shares outstanding during 1998, the Company redeemed 760.9384 shares pro rata at a total redemption price of \$7,609,384. The Company executed an Option Agreement with Bull Run in March 1996, whereby the Company has the option to purchase Bull Run's investment in the common stock of Sarkes Tarzian, Inc. Upon exercise of the option, the Company will pay Bull Run an amount equal to Bull Run's purchase price for the Tarzian investment plus related costs. In connection with the Option Agreement, the Company granted to Bull Run warrants to purchase up to 100,000 shares of the Company's Class B Common Stock at \$13.625 per share. The warrants will vest immediately upon the Company's exercise of its option to purchase the Tarzian investment. The option currently expires May 31, 1999 but may be extended month to month by the Company upon payment of an established fee through December 31, 2001.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

The following table sets forth certain information regarding the ownership of Class A Common Stock and Class B Common Stock as of March 11, 1999 by (i) any person who is known to the Company to be the beneficial owner of more than five percent of the Class A Common Stock or the Class B Common Stock, (ii) all directors, (iii) all executive officers named in the Summary Compensation Table herein and (iv) all directors and executive officers as a group.

NAME	CLASS A COMMON STOCK BENEFICIALLY OWNED		CLASS B COMMON STOCK BENEFICIALLY OWNED		COMBINED VOTING PERCENT OF COMMON STOCK
	SHARES	PERCENT	SHARES	PERCENT	
Robert A. Beizer (1)	-0-	0.0%	33,509	*	*
Richard L. Boger (1)	11,651	*	13,744	*	*
Joseph A. Carriere	6,075	*	-0-	0.0%	*
Hilton H. Howell, Jr. (1), (2), (3), (4)	3,523,782	45.4%	24,750	*	42.6%
Wayne M. Martin	362	*	517	*	*
William E. Mayher, III (1)	13,500	*	18,750	*	*
Zell Miller (1)	-0-	0.0%	7,500	*	*
Howell W. Newton (1)	2,625	*	9,500	*	*
Hugh Norton (1)	13,500	*	18,750	*	*
Robert S. Prather, Jr. (2), (5)	3,140,073	40.6%	24,200	*	38.1%
Harriett J. Robinson (1), (2), (4), (6)	4,472,082	55.8%	103,900	2.0%	52.5%
J. Mack Robinson (1), (2), (4), (7)	4,472,082	55.8%	103,900	2.0%	52.5%
James C. Ryan	-0-	0.0%	2,019	*	*
Thomas J. Stultz	2,250	*	1,474	*	*
Bull Run Corporation (8)	2,921,397	37.8%	11,750	*	35.4%
The Capital Group Companies, Inc. (9)	-0-	0.0%	401,600	7.8%	*
Mario J. Gabelli (10)	-0-	0.0%	1,183,200	23.1%	1.6%
Mellon Bank Corporation (11)	-0-	0.0%	450,000	8.8%	*
George H. Nader (12)	359,998	5.3%	-0-	0.0%	4.9%
Shapiro Capital Management Company, Inc. (13)	27,598	*	1,562,993	30.5%	2.5%
Standish Ayer and Wood, Inc. (14)	-0-	0.0%	474,100	9.2%	*
All directors and executive officers as a group	4,836,756	60.7%	241,722	4.6%	57.3%

* Less than 1%.

(1) Includes options to purchase Class B Common Stock as follows: each of Messrs. Boger, Howell, Mayher, Newton, Norton, Miller and Mrs. Robinson - 7,500 shares of Class B Common Stock; Mr. Beizer - 33,000 shares of Class B Common Stock.

(2) Includes 2,017,647 shares of Class A Common Stock and 11,750 shares of Class B Common Stock owned by Bull Run Corporation and warrants to purchase 903,750 shares of Class A Common Stock by Bull Run Corporation as described in footnote (8) below, because Messrs. Howell, Prather and Robinson are directors and officers of Bull Run Corporation and Messrs. Prather and Robinson are principal shareholders of Bull Run Corporation and Mrs. Robinson is the spouse of Mr. Robinson and, as such, may be deemed to have the right to vote or dispose of such shares. Each of Messrs. Howell, Prather, Robinson and Mrs. Robinson disclaims beneficial ownership of the shares owned by Bull Run Corporation.

- (3) Includes 58,575 shares of Class A Common Stock owned by Mr. Howell's wife, over which he disclaims beneficial ownership. Excludes 97,500 Class A shares held in trust for Mr. Howell's wife.
- (4) Includes as to Messrs. Robinson and Howell and Mrs. Robinson, an aggregate of 480,060 shares of Class A Common Stock and 6,000 shares of Class B Common Stock owned by certain companies of which Mr. Howell is an officer and a director. Mr. Robinson is also an officer, director and a principal or sole shareholder and Mrs. Robinson is also a director of these companies. Also includes warrants to purchase 28,500 shares of Class A Common Stock by one of the above described companies.
- (5) Includes 225 shares of Class A Common Stock owned by Mr. Prather's wife, over which he disclaims beneficial ownership.
- (6) Includes an aggregate of 366,875 shares of Class A Common Stock and 66,250 shares of Class B Common Stock owned by Mrs. Robinson's husband directly. Also includes warrants to purchase 85,500 shares of Class A Common Stock held by Mrs. Robinson and warrants to purchase 57,000 shares of Class A Common Stock held by Mrs. Robinson's husband. Includes 243,750 shares of Class A Common Stock and 10,000 shares of Class B Common Stock held as trustee for their daughters. Includes warrants to purchase 114,000 shares of Class A Common Stock held as trustee for their daughters. Does not include warrants held by Mrs. Robinson's husband and certain of his affiliates to purchase shares of Class A Common Stock which are not vested and therefore are not exercisable within 60 days. Does not include 1,000 shares of Series A Preferred Stock owned by Bull Run Corporation, none of which is voting or convertible. Also does not include 350 shares of Series B Preferred stock none of which is voting or convertible owned by Mr. Robinson and certain of his affiliates. See "Issuance of Preferred Stock and Warrants." Mrs. Robinson's address is 3500 Tuxedo Road, NW, Atlanta, Georgia 30305.
- (7) Includes an aggregate of 418,750 shares of Class A Common Stock and 12,400 shares of Class B Common Stock owned by Mr. Robinson's wife directly and as trustee for their daughters, over which he disclaims beneficial ownership. Also includes warrants to purchase 57,000 shares of Class A Common Stock held by Mr. Robinson and warrants to purchase 85,500 shares of Class A Common Stock held by Mr. Robinson's wife. Includes warrants to purchase 114,000 shares of Class A Common Stock owned held by Mr. Robinson's wife as trustee for their daughters. Does not include warrants held by Mr. Robinson and certain of his affiliates to purchase shares of Class A Common Stock which have not vested and therefore are not exercisable within 60 days. Does not include 1,000 shares of Series A Preferred Stock owned by Bull Run Corporation, none of which is voting or convertible. Also does not include 350 shares of Series B Preferred stock none of which is voting or convertible owned by Mr. Robinson and certain of his affiliates. See "Issuance of Preferred Stock and Warrants." Mr. Robinson's address is 4370 Peachtree Road NE, Atlanta, Georgia 30319.
- (8) Owned by Bull Run Corporation through its wholly-owned subsidiary, DataSouth Computer Corporation. Includes warrants to purchase 903,750 shares of Class A Common Stock which are exercisable within 60 days. Does not include 1,000 shares of Series A Preferred Stock and 175 shares of Series B Preferred Stock none of which is voting or convertible. Does not include warrants to purchase shares of Class A Common Stock which are not vested and therefore are not exercisable within 60 days. See "Issuance of Preferred Stock and Warrants." The address of Bull Run Corporation is 4370 Peachtree Road NE, Atlanta, Georgia 30319.

- (9) This information was furnished to the Company on a Schedule 13G filed by The Capital Group Companies, Inc. and Capital Guardian Trust Company. Capital Guardian Trust Company, a wholly owned subsidiary of The Capital Group Companies, Inc., is the beneficial owner of these shares as a result of its serving as the investment manager of various institutional accounts, but has authority to vote only 167,750 Class B shares. The address of The Capital Group Companies, Inc. and Capital Guardian Trust Company is 333 South Hope Street, Los Angeles, California 90071.
- (10) This information was furnished to the Company on a Schedule 13D filed by Gabelli Funds, Inc. and also by Mario J. Gabelli and various entities which he directly or indirectly controls or for which he acts as chief investment officer. The Schedule 13D reports the beneficial ownership of Class B Common Stock as follows: Gabelli Funds, Inc.-522,000 shares; GAMCO Investors, Inc.-634,950 shares; and Gabelli International Limited-26,250 shares. Mr. Gabelli is deemed to have beneficial ownership of all of the securities listed. Gabelli Funds, Inc. is deemed to have beneficial ownership of all of the shares. GAMCO Investors, Inc. only has the authority to vote 604,200 of the shares beneficially held by it. The address of Mr. Gabelli and Gabelli Funds, Inc. is One Corporate Center, Rye, New York 10580.
- (11) This information was furnished to the Company on a Schedule 13G filed by Mellon Bank Corporation. The Dreyfus Corporation, a subsidiary of Mellon Bank Corporation, is the beneficial owner of these shares of Class B Common Stock as the result of its serving as an investment adviser. The address of Mellon Bank Corporation is One Mellon Bank Center, Pittsburgh, Pennsylvania 15258.
- (12) Mr. Nader's address is P.O. Box 271, 1011 Fifth Avenue, West Point, Georgia 31833.
- (13) This information was furnished to the Company by a representative of Shapiro Capital Management Company, Inc., an investment adviser, and also by Samuel R. Shapiro, President, Director and majority shareholder of Shapiro Capital Management Company, Inc. The address of Shapiro Capital Management Company, Inc. is 3060 Peachtree Road NW, Atlanta, Georgia 30306.
- (14) This information was furnished to the Company on a Schedule 13G filed by Standish, Ayer & Wood, Inc., One Financial Center, Boston, Massachusetts 02111-2662.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

J. Mack Robinson, President, Chief Executive Officer and a director of the Company, is Chairman of the Board of Bull Run Corporation ("Bull Run") and the beneficial owner of approximately 29.6% of the outstanding shares of common stock, par value \$.01 per share ("Bull Run Common Stock"), of Bull Run Corporation (including certain shares as to which such beneficial ownership is disclaimed by Mr. Robinson). Robert S. Prather, Jr., Executive Vice President-Acquisitions and a director of the Company, is President, Chief Executive Officer and a director of Bull Run Corporation and the beneficial owner of approximately 13.3% of the outstanding shares of Bull Run Common Stock (including certain shares as to which such beneficial ownership is disclaimed by Mr. Prather). Bull Run is the owner of 17.0% of the total outstanding common stocks of the Company. Mr. Prather is also a member of the Board of Directors of CSP and Host. Hilton H. Howell, Jr., a director of the Company, is Vice President, Secretary and a director of Bull Run. See "Compensation Committee Interlocks and Insider Participation" for a description of certain business relationships between the Company and Messrs. Prather and Robinson, Host, CSP and Bull Run as set forth in Item 11 hereof.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K.

(A) (1) AND (2) LIST OF FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULES.

(1) FINANCIAL STATEMENTS.

The following consolidated financial statements of Gray Communications Systems, Inc. are included in item 8:

Report of Independent Auditors

Consolidated Balance Sheets at December 31, 1998 and 1997

Consolidated Statements of Operations for the years ended December 31, 1998, 1997 and 1996

Consolidated Statements of Stockholders' Equity for the years ended December 31, 1998, 1997 and 1996

Consolidated Statements of Cash Flows for the years ended December 31, 1998, 1997 and 1996

Notes to Consolidated Financial Statements

(2) FINANCIAL STATEMENT SCHEDULES.

The following financial statement schedule of Gray Communications Systems, Inc. and subsidiaries is included in Item 14(d):

Schedule II - Valuation and qualifying accounts.

All other schedules for which provision is made in the applicable accounting regulation of the Securities and Exchange Commission are not required under the related instructions or are inapplicable and therefore have been omitted.

(B) REPORTS ON FORM 8-K.

A report on Form 8-K was filed on August 14, 1998, reporting the exchange of the assets of WALB-TV for the assets of WEAU-TV. This report on Form 8-K also reported the acquisition of all of the outstanding common and preferred stock of Busse Broadcasting Corporation. A current report on Form 8K/A was filed on October 14, 1998 as an amendment to the current report on Form 8-K that was filed on August 14, 1998.

(C) EXHIBITS.

EXHIBIT NO.	DESCRIPTION	PAGE
- - - - -	- - - - -	- - - - -
3.1	Restated Articles of Incorporation of Gray Communications Systems, Inc., (incorporated by reference to Exhibit 3.1 to the Company's Form 10-K for the fiscal year ended December 31, 1996)	

EXHIBIT NO.	DESCRIPTION	PAGE
3.2	By-Laws of Gray Communications Systems, Inc. as amended (incorporated by reference to Exhibit 3.2 to the Company's Form 10-K for the year ended December 31, 1996)	
3.3	Amendment of the Bylaws of Gray Communications Systems, Inc., January 6, 1999	97
4.1	Indenture for the Company's 10 5/8% Senior Subordinated Notes due 2006 (incorporated by reference to Exhibit 4.1 to the Company's registration statement on Form S-1 (Registration No. 333-4338) (Exhibit 4.1 to the "Note S-1")	
4.2	Amended and Restated Loan Agreement by and among Gray Communications Systems, Inc. as Borrower, NationsBank, NA as Syndication Agent and Administrative Agent, Key Corporate Capital Inc., as Documentation Agent and The Financial Institutions Listed Herein as of July 31, 1998 with NationsBanc Montgomery Securities LLC, as Lead Arranger. (incorporated by reference to Exhibit 10.5 to the Company's Form 10-Q for the quarter ended June 30, 1998)	
4.3	Amended and Restated Borrower Security Agreement dated July 31, 1998 by and between Gray Communications Systems, Inc. and NationsBank N.A. as Administrative Agent	98
4.4	Subsidiary Security Agreement dated September 30, 1996 between Gray Communications Systems, Inc., its subsidiaries and KeyBank National Association (incorporated by reference to Exhibit 4(iii) to the Company's Form 8-K, filed October 15, 1996)	
4.5	Amended and Restated Borrower Pledge Agreement dated July 31, 1998 between Gray Communications Systems, Inc. and NationsBank N.A. as Administrative Agent	117
4.6	Subsidiary Pledge Agreement dated September 30, 1996 by and among WRDW-TV, Inc., WJHG-TV, Inc., Gray Kentucky Television, Inc. and KeyBank National Association (incorporated by reference to Exhibit 4(v) to the Company's Form 8-K, filed October 15, 1996)	
4.7	Subsidiary Guarantee dated September 30, 1996 between Gray Communications Systems, Inc., its subsidiaries and KeyBank National Association (incorporated by reference to Exhibit 4(vi) to the Company's Form 8-K, filed October 15, 1996)	
4.8	First Amendment to Amended and Restated Loan Agreement dated as of the 13th day of November, 1998, by and among Gray Communications Systems, Inc., as Borrower, the Banks (as defined in the loan agreement) and NationsBank, N.A., as administrative agent (the "Administrative Agent') on behalf of the Banks	141
4.9	Second Amendment to Amended and Restated Loan Agreement dated as of the 3rd day of March, 1999, by and among Gray Communications Systems, Inc., as Borrower, the Banks (as defined in the loan agreement) and NationsBank, N.A., as administrative agent on behalf of the Banks	156

EXHIBIT NO. -----	DESCRIPTION -----	PAGE -----
4.10	Consent Agreement entered into as of the 26th day of February, 1999 by and among Gray Communications Systems, Inc., as Borrower, the Banks (as defined in the Loan Agreement) and NationsBank N.A. as administrative agent on behalf of the Banks	167
10.1	Supplemental pension plan (incorporated by reference to Exhibit 10(a) to the Company's Form 10 filed October 7, 1991, as amended January 29, 1992 and March 2, 1992)	
10.2	Long-Term Incentive Plan (incorporated by reference to Exhibit 10(e) to the Company's Form 10-K for the fiscal year ended June 30, 1993)	
10.3	Warrant, dated January 4, 1996, to purchase 487,500 shares of Class A Common Stock (incorporated by reference to the Note S-1)	
10.4	Employment Agreement, dated February 12, 1996 between the Company and Robert A. Beizer (incorporated by reference to the Note S-1)	
10.5	Form of Preferred Stock Exchange and Purchase Agreement between the Company and Bull Run Corporation (incorporated by reference to the Note S-1)	
10.6	Form of Warrant to purchase 500,000 shares of Class A Common Stock (incorporated by reference to the Note S-1)	
10.7	Form of amendment to employment agreement between the Company and Robert A. Beizer, dated December 12, 1996 (incorporated by reference to Exhibit 10.19 to the Company's Form 10-K for the year ended December 31, 1996)	
10.8	Amendment to the Company's Long-Term Incentive Plan (incorporated by reference to Exhibit 10.19 to the Company's Form 10-K for the year ended December 31, 1996)	
10.9	Asset Purchase Agreement by and among the Company and Raycom-U.S., Inc. and WITN-TV, Inc. (incorporated by reference to Item 10 of the current report filed on Form 8-K (Registration No. 001-13796) on August 14, 1997)	
10.10	Stock Purchase Agreement by and Among Busse Broadcasting Corporation, South Street Corporate Recovery Fund I, L.P., Greycliff Leveraged Fund 1993, L.P., South Street Leveraged Corporate Recovery Fund, L.P. and Gray Communications Systems, Inc., as dated February 13, 1998 (incorporated by reference to Exhibit 10.15 to the Company's Form 10-K for the year ended December 31, 1997)	

EXHIBIT NO.	DESCRIPTION	PAGE
10.11	Amended and Restated Stock Purchase Agreement by and among Busse Broadcasting Corporation, South Street Corporate Recovery Fund I, L.P., Greycliff Leveraged Fund 1993, L.P., South Street Leveraged Corporate Recovery Fund, L.P., South Street Corporate Recovery Fund I (International), L.P. and Gray Communications Systems, Inc. dated as of June 22, 1998 (incorporated by reference to Exhibit 10.1 to the Company's Form 10-Q for the quarter ended June 30, 1998)	
10.12	Asset Purchase Agreement by and among Busse Broadcasting Corporation, WEAU License, Inc. and Cosmos Broadcasting Corporation dated as of June 22, 1998 (incorporated by reference to Exhibit 10.2 to the Company's Form 10-Q for the quarter ended June 30, 1998)	
10.13	Exchange Agreement by and among Gray Communications Systems, Inc., WALB-TV, Inc., WALB Licensee Corporation, Cosmos Broadcasting Corporation, Busse Broadcasting Corporation, and WEAU License, Inc. dated as of June 22, 1998 (incorporated by reference to Exhibit 10.3 to the Company's Form 10-Q for the quarter ended June 30, 1998)	
10.14	Escrow Agreement by and among WALB-TV, Inc. WALB Licensee Corporation, Cosmos Broadcasting Corporation and NationsBank, N. A. dated as of June 22, 1998 (incorporated by reference to Exhibit 10.4 to the Company's Form 10-Q for the quarter ended June 30, 1998)	
10.15	Asset Purchase Agreement by and among WALB-TV, Inc., WALB-TV Licensee Corp. and Cosmos Broadcasting Corporation dated as of June 22, 1998 (incorporated by reference to Exhibit 10.6 to the Company's Form 10-Q for the quarter ended June 30, 1998)	
10.16	Asset Purchase Agreement by and among Gray Communications Systems, Inc., Gray Communications of Indiana, Inc., News Printing Company, Inc., Jane Gemmer and John Gemmer dated as of February 28, 1999	179
21	List of Subsidiaries	229
23	Consent of Ernst & Young L.L.P. for the financial statements of Gray Communications Systems, Inc.	230
27	Financial Data Schedule for Gray Communications Systems, Inc.	231

(D) FINANCIAL STATEMENT SCHEDULES - The response to this section is submitted as a part of (a)(1) and (2).

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities and Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

GRAY COMMUNICATIONS SYSTEMS, INC.

Date: March 19, 1999 By: /s/ J. MACK ROBINSON

J. Mack Robinson,
PRESIDENT AND CHIEF EXECUTIVE OFFICER

Date: March 19, 1999 By: /s/ JAMES C. RYAN

James C. Ryan,
VICE PRESIDENT-FINANCE &
CHIEF FINANCIAL OFFICER

Date: March 19, 1999 By: /s/ JACKSON S. COWART, IV

Jackson S. Cowart, IV,
CHIEF ACCOUNTING OFFICER

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Date: March 19, 1999 By: /s/ WILLIAM E. MAYHER, III

William E. Mayher, III,
CHAIRMAN OF THE BOARD

Date: March 19, 1999 By: /s/ J. MACK ROBINSON

J. Mack Robinson,
PRESIDENT AND CHIEF EXECUTIVE
OFFICER AND DIRECTOR

Date: March 19, 1999 By: /s/ RICHARD L. BOGER

Richard L. Boger, DIRECTOR

Date: March 19, 1999 By: /s/ HILTON H. HOWELL, JR.

Hilton H. Howell, Jr., DIRECTOR

Date: March 19, 1999 By: /s/ HOWELL W. NEWTON

Howell W. Newton, DIRECTOR

Date: March 19, 1999 By: /s/ HUGH NORTON

Hugh Norton, DIRECTOR

Date: March 19, 1999 By: /s/ ROBERT S. PRATHER, JR.

Robert S. Prather, Jr., DIRECTOR

Date: March 19, 1999 By: /s/ HARRIETT J. ROBINSON

Harriett J. Robinson, DIRECTOR

Date: March 19, 1999 By: /s/ ZELL MILLER

Zell Miller, DIRECTOR

REPORT OF INDEPENDENT AUDITORS

We have audited the consolidated financial statements of Gray Communications Systems, Inc. as of December 31, 1998 and 1997, and for each of the three years in the period ended December 31, 1998, and have issued our report thereon dated January 26, 1999. Our audits also included the financial statement schedule listed in Item 14(a). This schedule is the responsibility of the Company's management. Our responsibility is to express an opinion based on our audits.

In our opinion, the financial statement schedule referred to above, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

Ernst & Young LLP

Atlanta, Georgia
January 26, 1999

GRAY COMMUNICATIONS SYSTEMS, INC.

SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS

COL. A	COL. B	COL. C		COL. D	COL. E
DESCRIPTION	BALANCE AT BEGINNING OF PERIOD	ADDITIONS		DEDUCTIONS (1)	BALANCE AT END OF PERIOD
		CHARGED TO COSTS AND EXPENSES	CHARGED TO OTHER ACCOUNTS		
YEAR ENDED DECEMBER 31, 1998 Allowance for doubtful accounts	\$1,253,000	\$831,000	\$ 61,000(2)	\$933,000	\$1,212,000
YEAR ENDED DECEMBER 31, 1997 Allowance for doubtful accounts	\$1,450,000	\$188,000	\$ 31,000(2)	\$416,000	\$1,253,000
YEAR ENDED DECEMBER 31, 1996 Allowance for doubtful accounts	\$ 450,000	\$894,000	\$583,000(2)	\$477,000	\$1,450,000

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(1) Deductions are write-offs of amounts not considered collectible.
 (2) Represents amounts recorded in connection with acquisitions.

AMENDMENT TO THE BYLAWS
OF GRAY COMMUNICATIONS SYSTEMS, INC.
JANUARY 6, 1999

The Bylaws of Gray Communications Systems, Inc. were amended by the Board of Directors by Unanimous Written Consent on January 6, 1999 deleting the following sections in their entirety and substituting in lieu thereof the following:

NOW, THEREFORE, BE IT RESOLVED, that the Bylaws of the Company be, and the same hereby are, amended by deleting the current Section 2 of Article III thereof, in its entirety and substituting in lieu thereof the following:

Section 2 NUMBER, TENURE AND QUALIFICATIONS.

"The number of directors of the Corporation shall be not less than 3 nor more than 15, the exact number of which may be established by the Board of Directors. Each Director shall hold office until the next annual meeting of stockholders and until his or her successor shall have been elected and qualified. A majority of the directors shall be bona fide residents of the State of Georgia."

FURTHER RESOLVED, that the Bylaws of the Company be, and the same hereby are, amended by deleting the current Section 8 of Article III thereof, in its entirety and substituting in lieu thereof the following:

Section 8 VACANCIES.

"Any vacancy occurring in the Board of Directors may be filled by the affirmative vote of a majority of the remaining directors though less than a quorum of the Board of Directors. A director elected to fill a vacancy shall be elected for the unexpired term of his predecessor in office. Any directorship to be filled by reason of an increase in the number of directors shall be filled by the affirmative vote of a majority of the Board of Directors but only for a term of office continuing until the next election of directors by the stockholders and until the election and qualification of the successor."

AMENDED AND RESTATED BORROWER SECURITY AGREEMENT

THIS AMENDED AND RESTATED BORROWER SECURITY AGREEMENT is made and entered into as of July 31, 1998, by and between GRAY COMMUNICATIONS SYSTEMS, INC., a Georgia corporation (the "Debtor"), and NATIONSBANK, N.A. (the "Secured Party"), as administrative agent for itself and the other financial institutions listed on the signature pages of the Loan Agreement (as defined below), and their successors and assigns. The Secured Party and such other financial institutions may be referred to hereinafter individually as a "Bank" or collectively as the "Banks."

RECITALS

A. The Debtor, NationsBank, N.A., as Administrative Agent and Syndication Agent (each as defined in the Loan Agreement defined below), KeyBank National Association, as Documentation Agent (as defined in the Loan Agreement defined below), and the other Banks (as defined in the Loan Agreement defined below) have entered into that certain Amended and Restated Loan Agreement dated as of July 31, 1998 (as the same may be extended, amended, restated or modified from time to time, the "Loan Agreement"), which is hereby incorporated herein by this reference, pursuant to which the Banks have agreed to make available to the Debtor up to \$100,000,000 on a reducing revolving credit basis and up to \$100,000,000 on a term loan basis. All capitalized terms used herein and not otherwise defined herein shall have the meanings assigned to them in the Loan Agreement. The Debtor may also be indebted to a Bank or an Affiliate of a Bank from time to time in respect of Rate Hedging Obligations.

B. In order to induce the Secured Party and the Banks to enter into the Loan Agreement and to ensure that the Loans made pursuant to the Loan Agreement will be secured as provided herein, the Debtor has agreed to enter into this Agreement.

C. The Banks have appointed the Secured Party as their agent for the purpose, among other things, of protecting and preserving the security for the repayment of the Debtor's obligations under the Loan Agreement.

AGREEMENTS

In consideration of the foregoing Recitals, and of the agreements made herein, and of the Loans made or to be made by the Banks to the Debtor, the Debtor and the Secured Party, on behalf of the Banks, agree as follows:

1. GRANT OF SECURITY INTEREST

1.1 Collateral. The Debtor hereby grants to the Secured Party, for the benefit of the Banks, ratably in proportion to the total Secured Obligations (as that term is defined below) owing at any time to the Banks, a first priority security interest in all of the Debtor's personal property, both tangible and intangible, whether presently owned or existing or hereafter acquired or arising and wheresoever located, and all books, records, computer printouts, tapes, disks, ledger sheets, files and other data relating thereto, including, without limitation:

(a) all inventory of the Debtor, including all goods, raw materials, work in process, merchandise, goods in transit to the Debtor for which payment has been made, and other tangible personal property held for sale or lease or furnished or to be furnished under contracts of service or used or consumed in the Debtor's business (all hereinafter called the "Inventory");

(b) all accounts receivable, contracts, contract rights (including, without limitation, any arising out of leases or licenses of real or personal property), rights to payment, programming agreements, tax refunds, claims, chattel paper, letters of credit, documents, drafts and accounts, including, without limitation, all of the same evidencing or representing indebtedness due or to become due to the Debtor for its own account or on account of goods sold or leased or to be sold or leased by the Debtor, or services rendered or to be rendered by the Debtor (all hereinafter called the "Accounts");

(c) all right, title and interest of the Debtor in and to:

(i) all copyrights, copyright registrations and applications for copyright registrations, including, without limitation, all renewals and extensions thereof, the right to recover for all past, present and future infringements thereof, and all other rights of any kind whatsoever accruing thereunder or pertaining thereto (collectively, the "Copyrights");

(ii) all patents and patent applications, including, without limitation, the inventions and improvements described and claimed therein together with the reissues, divisions, continuations, renewals, extensions and continuations-in-part thereof, all income, royalties, damages and payments now or thereafter due and/or payable under and with respect thereto, including, without limitation, damages and payments for past or future infringements thereof, the right to sue for past, present and future infringements thereof, and all rights corresponding thereto throughout the world (collectively, the "Patents");

(iii) all trade names, trademarks and service marks, logos, trademark and service mark registrations, and applications

for trademark and service mark registrations, including, without limitation, all renewals of trademark and service mark registrations, all rights corresponding thereto throughout the world, the right to recover for all past, present and future infringements thereof, all other rights of any kind whatsoever accruing thereunder or pertaining thereto, together in each case, with the product lines and goodwill of the business connected with the use of, and symbolized by, each such trade name, trademark and service mark (collectively, the "Trademarks");

(iv) (A) all inventions, processes, production methods, proprietary information, know-how and trade secrets used or useful in the business of the Debtor; (B) all licenses or user or other agreements granted to the Debtor with respect to the Copyrights, Patents, Trademarks or any of the foregoing; (C) all information, customer lists, identification of suppliers, data, plans, blueprints

specifications, designs, drawings, recorded knowledge, surveys, engineering reports, test reports, manuals, materials standards, processing standards, performance standards, catalogs, computer and automatic machinery software and programs, and the like pertaining to the operation by the Debtor of its business; (D) all field repair data, sales data and other information relating to sales or service of products now or hereafter manufactured and which pertain to the Debtor's business; (E) all accounting information which pertains to the Debtor's business and all media in which or on which any of the information or knowledge or data or records which pertain to such business may be recorded or stored and all computer programs used for the compilation or printout of such information, knowledge, records or data; (F) all licenses, consents, permits, variances, certifications and approvals of governmental agencies now or hereafter held by the Debtor pertaining to the operation of its business; and (G) all causes of action, claims and warranties now or hereafter owned or acquired by the Debtor in respect of any of the items listed above;

(v) all money, deposit accounts, insurance proceeds, securities, partnership interest, notes, instruments, licenses, franchises, permits, authorizations, agreements, leases, and general intangibles of the Debtor, including, without limitation, goodwill, going concern value, all of the Debtor's rights under or relating to any Licenses and the proceeds of any Licenses, and all rights incident or appurtenant to such Licenses and the right to receive all proceeds derived from or in connection with the sale, assignment or transfer thereof; provided, however, that such security interest shall include the Licenses granted by the FCC only at such times and to the extent (but only to the extent) that the Debtor is permitted to grant a security interest therein under applicable provisions of the Communications Act of 1934, as amended, and the rules and regulations of the FCC promulgated thereunder, but shall include at all times, to the maximum extent permitted by law, all rights incident or appurtenant to such Licenses and the right to receive all proceeds derived from or in connection with the sale, assignment or transfer of such Licenses or any Station (all of the foregoing items of collateral referenced in this Subsection 1.1(c), including, without limitation, the Copyrights, the Patents and the Trademarks, being hereinafter called the "Intangibles");

(d) all of the Debtor's furniture, fixtures, trade fixtures, machinery, equipment, antennas, towers, transmitting and receiving equipment, computers, pagers, satellite earth stations, microwave equipment, appliances, motor vehicles, furnishings, leasehold improvements, operating and testing equipment, amplifiers and other electronic equipment, parts, supplies and tools (all hereinafter called the "Equipment");

(e) all of the Debtor's rights as a seller of goods under Article 2 of the Uniform Commercial Code or otherwise with respect to Inventory and Equipment, and, as to goods represented by or securing any of the Accounts, all of the Debtor's rights therein, including, without limitation, rights as an unpaid vendor or lien or and including rights of stoppage in transit, replevin and reclamation;

(f) all guarantees, mortgages or security interests in real or personal property, leases or other agreements or property now or hereafter securing or relating to any of the items referred to above in favor of the Debtor, or now or hereafter acquired for the purpose of securing and enforcing any of such items in favor of the Debtor, and the proceeds thereof;

(g) all rents, revenues, proceeds, issues, profits, royalties, income and other benefits derived from real estate, and from any improvements or fixtures thereon owned by the Debtor;

(h) all right, title and interest of Debtor in and to all proceeds of insurance and any and all awards made for the taking by eminent domain, or by any proceeding or purchase in lieu thereof, of any real estate, or any improvements or fixtures thereon, including, without limitation, any awards resulting from any damage to any real estate, improvements or fixtures for which compensation shall be given by any governmental authority;

(i) all the proceeds, products, income and profits of any of the foregoing and the proceeds of any such proceeds, products, income and profits; and

(j) all right, title and interest of the Debtor in or to all instruments and documents covering or relating to the above described Collateral (as defined below) or to the property described in or represented by the Accounts (all such instruments and documents being called the "Related Documents");

provided, however, that, with respect to any agreement, lease or contract right which prohibits the grant of a security interest in the Debtor's interest therein or the assignment thereof, such grant of a security interest or assignment shall be limited to the account or general intangible for money due or to become due relating to or arising out of such agreement, lease or contract right. All of the foregoing property in which the Secured Party has been granted a security interest is hereinafter collectively referred to as the "Collateral".

1.2 Obligations Secured. The security interests of the Secured Party under this Agreement secure (a) the payment and performance of all indebtedness, obligations and liabilities of the Debtor arising at any time and from time to time, now or in the future, pursuant to the Loan Agreement or any Collateral Document, including, without limitation, such obligations as are evidenced by the Notes; (b) the payment and performance of all obligations and liabilities of the Debtor arising at any time and from time to time, now or in the future, pursuant to any agreement with a Bank or an Affiliate of a Bank with respect to Rate Hedging Obligations; (c) performance by the Debtor of the agreements set forth herein, in the Loan Agreement and in the Collateral Documents; (d) all payments made or expenses incurred by the Secured Party under this Agreement, the Loan Agreement or the Collateral documents, including, without limitation, reasonable attorneys fees and legal expenses, in the exercise, preservation or enforcement of any of the rights, powers or remedies of the Secured Party, or in the enforcement of the obligations of the Debtor, hereunder; and (e) any renewals, continuations or extensions of any of the foregoing (all of which are referred to herein as the "Secured Obligations").

2. THE DEBTOR'S REPRESENTATIONS AND WARRANTIES. The Debtor represents and warrants to the Secured Party as follows, and these representations and warranties shall survive the execution hereof and the making of the Loans and shall be continuing until the termination of this Agreement.

2.1 Authority. The execution, delivery and performance of this Agreement and any instruments or documents executed and delivered by the Debtor pursuant hereto are within the Debtor's corporate powers, have been duly authorized by all proper and necessary corporate and stockholder action, are not in contravention of law or the terms of the Certificate of Incorporation, By-Laws or other organizational documents of the Debtor or any provision of any material indenture, contract or agreement to which the Debtor is a party or by which it or any of its property is bound; and this Agreement constitutes a legal, valid and binding obligation of the Debtor enforceable in accordance with its terms except to the extent that the enforceability hereof may be limited by bankruptcy, insolvency or like laws affecting creditors' rights generally and the application of equitable principles.

2.2 Title. Except for Permitted Liens, the Debtor is and will be the sole owner of all of the Collateral, whenever acquired or arising, free and clear of all Liens or adverse claims.

2.3 Accounts. Each account (as that term is defined in the Uniform Commercial Code) included in the Debtor's Accounts as shown on the Debtor's books and records, whether currently existing or hereafter arising, is or will be genuine and in all respects is or will be what it purports to be. The whole of the balance indicated as being unpaid and owing with respect to each such account on the books of the Debtor, is, and shall be, unpaid and owing, net any reserves on the books of the Debtor.

2.4 No Other Names. Debtor has not conducted business under any name other than the name in which it executed this Agreement.

2.5 Intellectual Property. Schedule A attached hereto sets forth a complete and accurate list of all registered Copyrights, Patents and Trademarks owned by the Debtor on the date hereof. The Debtor owns and possesses the right to use, and has done nothing to authorize or enable any other Person to use, any Copyright, Patent or Trademark listed on Schedule A. All registrations for such Copyrights, Patents and Trademarks are valid and in full force and effect, and the Debtor owns or possesses the right to use all material Copyrights, Patents and Trademarks necessary for the operation of its business. To the Debtor's knowledge, (a) there is no violation by others of any right of the Debtor with respect to any material Copyright, Patent or Trademark and (b), to the best of Debtor's knowledge, the Debtor is not infringing in any respect upon any copyright, patent or trademark of any other Person; and no proceedings have been instituted or are pending against the Debtor or, to the Debtor's knowledge, threatened, and no claim against the Debtor has been received by the Debtor, alleging any such violation.

2.6 Solvency. The Debtor has received, or has the right to receive, by contribution or otherwise, consideration which is the reasonably equivalent value of the obligations and liabilities that it has incurred to the Banks. The Debtor is not insolvent as defined in Title 11 of

the United States Code or any other applicable federal or state bankruptcy or insolvency statute, nor, after giving effect to the consummation of the transactions contemplated in the Loan Agreement, will the Debtor be rendered insolvent by the execution and delivery of this Agreement. The Debtor has not engaged, nor is the Debtor about to engage, in any business or transaction for which the assets retained by it shall be an unreasonably small capital, taking into consideration the obligations to the Secured Party incurred under the Loan Agreement and hereunder. The Debtor does not intend to, nor does the Debtor believe that it will, incur debts beyond its ability to pay them as they mature.

3. COVENANTS OF THE DEBTOR. The Debtor agrees and covenants with the Secured Party as follows:

3.1 Maintenance and Use of Collateral. The Debtor (a) shall keep all its Inventory and Equipment in good condition and repair, reasonable wear and tear expected, and shall not commit any material waste thereof or permit anything to be done which may materially impair the value thereof; (b) shall observe and perform all material terms, conditions and covenants contained in any material agreements, leases, licenses, permits, Operating Agreements and franchises evidencing the Intangibles, including, without limitation, the Licenses; (c) shall use the Collateral only in the ordinary course of its business and not in material violation of any applicable License, permit, authorization, law, ordinance, regulation, rule, order, franchise or policy of insurance; and (d) shall take all commercially reasonable actions as may be necessary to keep all material Patents, Copyrights and Trademarks from becoming invalidated or subject to any claim of abandonment for non-use.

3.2 Taxes. Except as expressly provided in the Loan Agreement, the Debtor shall pay and discharge promptly all taxes, assessments, license or permit fees and governmental charges or levies imposed upon it or in respect of the Collateral before the imposition of any penalty, as well as all lawful claims for labor, materials, supplies or other matters which, if unpaid, might become a lien or charge upon the Collateral or any part thereof, and, upon request, deliver to the Secured Party evidence of the discharge of such taxes, assessments, charges or claims.

3.3 Sale or Transfer. Except as expressly provided in the Loan Agreement or herein, the Debtor shall not voluntarily or involuntarily sell, assign, lease, transfer, pledge, hypothecate or otherwise dispose of or encumber any of the Collateral or any interest therein, or permit any of it to become a fixture on or an accession to other goods or property. For purposes of this Section 3.3, the term "Collateral" shall be deemed to include the Licenses whether or not the Secured Party is permitted under existing law to hold a security interest therein.

3.4 Insurance. The Debtor will obtain and maintain a policy or policies of insurance insuring the Collateral in accordance with Section 7.3 of the Loan Agreement, the terms and provisions of which are hereby incorporated herein by this reference. In the event of any damage or destruction to the Collateral or any part thereof, any and all proceeds of such insurance shall be delivered to the Secured Party. Such proceeds of insurance shall, (a) if no Event of Default or Possible Default then exists, be paid to the Debtor to be used solely for repair or replacement of the property so damaged, or (b) if an Event of Default or Possible Default then exists, be applied, in the Secured Party's discretion, against the Secured Obligations then outstanding, whether or

not then due and payable. The Debtor hereby appoints the Secured Party as its agent and attorney-in-fact (which appointment is coupled with an interest) with full power and authority to make proof of loss, to give a receipt for any sums collected under said policies and, in the event any insurance losses are paid by check, draft or other instrument payable to the Debtor and the Secured Party, to endorse the Debtor's name thereon and take such further steps on behalf of the Debtor as may be necessary to realize on such Instance.

3.5 Maintenance of Security Interest. The Debtor shall do all things necessary or reasonably requested by the Secured Party to preserve and maintain the security interests of the Secured Party hereunder as a first lien in the Collateral, except for Permitted Liens, and shall not permit the creation of any other Lien (other than Permitted Liens) in the Collateral. The Debtor shall protect and defend the Collateral from and against any and all claims, demands or legal proceedings brought or asserted by any party other than the Secured Party in such capacity. The Debtor shall, if requested by the Secured Party, execute and deliver and shall file or record, or cause to be filed or recorded, such notices, financing statements, continuation statements, certificates of title and other documents as the Secured Party may reasonably deem appropriate, and shall deliver to the Secured Party upon request therefor such insurance policies, securities, agreements, leases, franchises, licenses, permits, writings, documents, certificates, instruments or other Intangibles, as may be necessary to perfect the security interests of the Secured Party hereunder. The Debtor shall bear the expenses of all such filings and actions. All documents which are being filed or recorded shall be in form and substance satisfactory to the Secured Party. The Debtor shall do such further acts and things and execute and deliver to the Secured Party such additional conveyances, assignments, agreements and instruments as the Secured Party may reasonably require or deem advisable to carry into effect the purposes of this Agreement or to better perfect, assure and confirm unto the Secured Party its rights, powers and remedies hereunder. Upon request by the Secured Party, the Debtor shall mark conspicuously all chattel paper and instruments with a legend, in form and substance satisfactory to the Secured Party, indicating that such Collateral is subject to the security interest granted hereby.

3.6 Records, Statements and Related Documents. The Debtor agrees, (a) when reasonably requested to do so by the Secured Party, to prepare and deliver to the Secured Party a schedule in form reasonably satisfactory to the Secured Party, certified by an authorized officer of the Debtor, listing the location by county and state of all Collateral; (b) to keep accurate and complete records at all times with respect to the Collateral and to deliver to the Secured Party copies of such records and such other information regarding the Collateral or account debtors which the Secured Party may reasonably request; and (c) that at any reasonable time the Secured Party or its authorized representatives may enter the premises of the Debtor to examine the Collateral and inspect and copy the books and records of the Debtor. The Debtor shall furnish to the Secured Party from time to time statements and schedules further identifying and describing the Copyrights, the Patents and the Trademarks, respectively, and such other reports in connection with the Copyrights, the Patents and the Trademarks as the Secured Party may reasonably request, all in reasonable detail.

3.7 Location. The principal and chief executive office of the Debtor is located at 126 North Washington Street, Albany, Georgia 31701, and all of the Collateral is located in the jurisdictions listed on Schedule B attached hereto. The Debtor shall not move its principal and

chief executive office or any of the Collateral, or any records relating thereto, from a county or other filing location listed on Schedule B, without thirty days prior written notice to the Secured Party. If the Debtor acquires any Collateral at any other location not listed on Schedule B, it shall immediately notify the Secured Party and amend Schedule B to reflect such acquisition.

3.8 Notice. The Debtor shall promptly notify the Secured Party of any loss, destruction or damage to any material portion of the Collateral.

3.9 Collection of Accounts. The Debtor agrees that it will use commercially reasonable efforts to collect all Accounts as the same become due.

3.10 Change of Name, Identity or Corporate Structure. The Debtor shall not change its name, identity or corporate structure, voluntarily or involuntarily, except as expressly permitted in the Loan Agreement.

4. RIGHT TO PERFORM FOR THE DEBTOR. If an Event of Default shall occur, subject to compliance with all applicable law, including, without limitation, the rules and regulations of the FCC and the applicable provisions of the Licenses, the Secured Party may, but shall not be obligated to, on behalf of the Debtor and in its name and stead, in addition to any other rights or remedies provided to the Secured Party by law or by this Agreement, perform any act, make any payment, discharge any obligation, collect any Account or money owed to the Debtor or otherwise act for the Debtor in such manner as the Secured Party in its sole discretion may deem necessary or advisable to protect, secure or enforce its interests, rights or remedies hereunder. The Debtor shall pay to the Secured Party on demand the amounts of all such payments made or expenses incurred by the Secured Party, including reasonable attorneys' fees and legal expenses, in exercising any of the rights granted in this Section 4. The obligation to repay such amounts shall be one of the Secured Obligations secured hereby and shall bear interest at the Default Interest Rate.

5. DEFAULT. The occurrence of any Event of Default under the Loan Agreement shall constitute an Event of Default under this Agreement.

6. REMEDIES. The Secured Party shall have all of rights and remedies of a secured party under the Uniform Commercial Code in effect in any applicable jurisdiction, as well as all rights and remedies provided by any other applicable law, at law or in equity, or herein, in the Loan Agreement or in any other instrument executed by the Debtor in favor of the Secured Party or the Banks. Without limiting the generality of the foregoing, the Secured Party shall also have the right to do any or all of the following (as set forth in Sections 6.1 through 6.7 below) upon the occurrence and during the continuance of an Event of Default and subject to compliance with all applicable rules and regulations of the FCC and any other applicable federal or state regulatory authority, and other applicable requirements of law:

6.1 Possession. Without notice, demand or hearing, any right to which is hereby waived by the Debtor, the Secured Party may take possession of all or any part of the Collateral and enter and remain upon the premises where such Collateral is

located for the purpose of such possession and the exercise of the remedies provided herein, without the same being a trespass.

6.2 Assembling Collateral. The Secured Party may require the Debtor to assemble the Collateral and to make it available to the Secured Party at any mutually convenient place designated by the Secured Party.

6.3 Operation. The Secured Party may take such measures, including the use or operation of the Collateral in the Debtor's business, or the repair, dismantling, removal or transportation of all or any part of the Collateral, as the Secured Party may deem necessary or proper for the care, protection, maintenance and preservation of the Collateral, for the Preparation of the Collateral for sale, lease, or other disposition, or for the most advantageous beneficial exercise of its remedies hereunder. Without limiting the generality of the foregoing, the Secured Party shall have the right to apply for and have a trustee or receiver appointed by a court of competent jurisdiction in any action taken by the Secured Party to enforce its rights and remedies hereunder in order to manage, protect and preserve the Collateral and continue the operation of the business of the Debtor and to collect all revenues and profits thereof and apply the same to the payment of all expenses and other charges of such receivership, including the compensation of the receiver, and to the payment of the Secured Obligations until a sale or other disposition of such Collateral shall be finally made and consummated. Furthermore, the Debtor shall take any action which the Secured Party may reasonably request in order to obtain and enjoy the full rights and benefits granted to the Secured Party by this Agreement, including specifically, at the Debtor's own cost and expense, the use of its best efforts to assist in obtaining the approval of the FCC and any other applicable state regulatory authority and any other third party for any action or transaction contemplated by this Agreement which is then required by law or the terms of any contract, agreement or License, permit or authorization.

6.4 Collection of Accounts; Special Account.

(a) Without notice to the Debtor, the Secured Party may notify the account debtor obligated under any Account of the Secured Party's security interest therein and may direct such account debtor to make payment of all amounts due or to become due the Debtor thereunder directly to the Secured Party or any agent selected by it and, upon such notification, may enforce, or cause such agent to enforce, collection of any such Account in the same manner and to the same extent as the Debtor might have done. Effective upon the occurrence and during the continuance of an Event of Default, the Debtor hereby constitutes and appoints the Secured Party its true and lawful attorney (which appointment is coupled with an interest), with full power of substitution, either in the Secured Party's own name or in the name of the Debtor, to ask for, demand, sue for, collect, receive, receipt and give acquittance for any and all moneys due or to become due under or by virtue of any Account; to endorse checks, drafts, orders and order instruments for the payment of money payable to the Debtor on account thereof; to settle, compromise, prosecute or defend any action, claim or proceeding with respect thereto; and to sell, assign, pledge, transfer and make any agreement respecting, or otherwise deal with, the same.

(b) Nothing in this Agreement shall be construed as requiring or obligating the Secured Party to make any demand or inquiry as to the nature or sufficiency of any payment received by it. The Secured Party shall not be obligated to present or file any claim or notice or to take any action with respect to any such Account, or the monies due or to become due thereunder, or the property covered thereby or by any Related Document. No action taken by the Secured Party or omitted to be taken with respect to any such Account shall give rise to any defense, counterclaim or offset in favor of the Debtor or to any claim or action against the Secured Party or any Bank.

(c) The Debtor agrees that all cash, proceeds, checks, drafts, orders and other instruments for the payment of money received by it on account of any Account or as a result of the sale, lease, destruction, condemnation or other voluntary or involuntary disposition of any Collateral, whether pursuant to the exercise of a right granted herein to the Debtor or otherwise, shall be the property of the Secured Party. All such proceeds shall be deposited in the form received (properly endorsed collection where required) not later than the Banking Day following the day of receipt in a special bank account maintained with the Secured Party in the Debtor's name, over which the Secured Party alone shall have the right of withdrawal, for payment of all of the Secured Obligations. Debtor shall not commingle any such collections or proceeds with any of its other funds or property and shall hold the same upon an express trust for the Secured Party until deposited in the special account, as aforesaid. In the event the Debtor shall obtain possession of any goods (as a result of their return or repossession or otherwise), the sale, lease or other disposition of which gave rise to an Account, the Debtor shall hold the same subject to the security interest of the Secured Party hereunder and to dispose of such goods, at its own expense and sole risk but for the account of the Secured Party, in such manner as the Secured Party may direct.

6.5 Transfer of Intangibles.

(a) The Secured Party shall have the right to take possession of any agreement, lease, License, permit or other document evidencing any of the Collateral, and may apply for or seek, on behalf of and as attorney-in-fact for the Debtor, any necessary consent to the voluntary or involuntary assignment, transfer, conveyance, sale, renewal, reissuance or other disposition of the same, and the Debtor shall cooperate fully with the Secured Party in doing so and shall take all actions requested by the Secured Party in furtherance thereof.

(b) The Debtor hereby constitutes and appoints the Secured Party its true and lawful attorney (which appointment is coupled with an interest) with full power of substitution, either in the Secured Party's own name or in the name of the Debtor, to assign, transfer and convey any and all of the Debtor's rights in and to any of the Intangibles, including without limitation, any License (to the extent permitted by law), to any purchaser of all or any of the Collateral pursuant to Section 6.6 hereof.

(c) In connection with the exercise of its remedies under the Loan Agreement and this Agreement, the Secured Party may obtain the appointment of a trustee or receiver to obtain, upon receipt of all necessary judicial or other federal or state regulatory authority consents or approvals, an assignment of any Intangible, including, without limitation, any

License. Such trustee or receiver shall have all rights and powers provided to it by law or by court order or provided to the Secured Party under this Agreement.

(d) For the purpose of enabling the Secured Party to exercise rights and remedies under this Section 6 at such time as the Secured party shall be lawfully entitled to exercise such rights and remedies, and for no other purpose, the Debtor hereby grants to the Secured Party, to the extent assignable without violation of any third party rights, an irrevocable non-exclusive license (exercisable without payment of royalty or other compensation) to use, assign, license or sublicense any of the Intangibles, wherever the same may be located, including in such license reasonable access to all media in which any of the licensed items may be recorded or stored and to all computer programs used for the compilation or printout thereof.

(e) In the event of any sale, assignment or other disposition of any of the Trademarks, the goodwill of the Debtor's business connected with and symbolized by such Trademarks subject to such disposition shall be included, and the Debtor shall supply to the Secured Party or its designee, for inclusion in such sale, assignment or other disposition, all Intangibles relating to such Trademarks.

6.6 Sale or Disposition.

(a) The Secured Party may sell, lease, assign, transfer, convey or otherwise dispose of any or all of the Collateral, as the Secured Party in its discretion may determine, by public or private sale. Except for items of Inventory or Equipment which are perishable or threaten to decline speedily in value or are of a type customarily sold on a recognized market, the Secured Party shall give the Debtor at least ten days prior written notice of the time and place of any public sale thereof or of the time after which any private sale or other intended disposition thereof is to be made. At any such sale, the Collateral may be sold in one lot as an entirety or in separate parcels, as the Secured Party may determine, and the price and other terms shall be such as the Secured Party deems to be commercially reasonable. At any sale hereunder, to the extent permitted by law, the Secured Party or any Bank may become the purchaser. Any purchaser of any or all of the Collateral shall hold the same free from any claim or right of whatsoever kind, including, without limitation, any right or equity of redemption (statutory or otherwise), of the Debtor, any such right or equity being hereby expressly waived.

(b) The Secured Party and the Banks shall incur no liability as a result of the sale of the Collateral, or any part thereof, at any private sale pursuant to this Section conducted in a commercially reasonable manner. The Debtor hereby waives any claims against the Secured Party and the Banks arising by reason of the fact that the price at which the Collateral may have been sold at such a private sale was less than the price that might have been obtained at a public sale or less than the aggregate amount of the Secured Obligations, even if the Secured Party accepts the first offer received and does not offer the Collateral to more than one offeree, provided that such private sale is conducted in a commercially reasonable manner.

6.7 Proceeds. All proceeds from the sale or other disposition of Collateral by the Secured Party hereunder, all other moneys received by the Secured Party pursuant to the terms of this Agreement (whether through the exercise by the Secured Party of its right of collection of

accounts or otherwise) and all balances from time to time remaining in the special account required to be maintained by the Debtor under Section 6.4 shall be applied as follows:

(a) First, to the payment of (i) all expenses incurred by the Secured Party in connection with this Agreement or the exercise of any right or remedy hereunder, or any sale or disposition, including, but not limited to, the expenses of taking, advertising, processing, insuring, preparing and scoring the Collateral to be sold, all court costs and the Secured Party's legal fees in connection therewith, and (ii) all advances made by the Secured Party hereunder for the account of the Debtor;

(b) Next, to the payment of the unpaid principal amount due and owing on any of the Secured Obligations in accordance with the terms thereof, together with interest thereon to the date of payment; the remainder to be held as security for, the Debtor's payment of any Secured Obligations not then due and owing, together with interest accrued and accruing thereon; and

(c) Finally, any surplus remaining to be paid over to the Debtor or as a court of competent jurisdiction may direct.

With respect to any application pursuant to clause (b) above, such proceeds, moneys or balances may be applied, at the sole discretion of the Secured Party and to the extent of the amount thereof, to discharge in whole or in part the most recently incurred and unpaid Secured Obligation, notwithstanding any manifestation of an intent to the contrary expressed in writing or otherwise by the Debtor at any time. Upon any sale of Collateral by the Secured Party (whether pursuant to a power of sale granted by a statute or under a judicial proceeding), the receipt of the Secured Party or of the officer making the sale shall be a sufficient discharge to the purchaser or purchasers of the Collateral so sold and such purchaser or purchasers shall not be obligated to see to the application of any part of the purchase money paid over to the Secured Party or such officer, or be answerable in any way for the misapplication thereof. Notwithstanding the sale or other disposition of any Collateral by the Secured Party hereunder, the Debtor shall remain liable for any deficiency.

7. REMEDIES CUMULATIVE. All rights, remedies or powers conferred upon the Secured Party herein or by law shall be cumulative and concurrent at the option of the Secured Party, and the Secured Party may foreclose or exercise the power of sale or any other remedy available to it successively upon, and during the continuance of, any Event of Default or successive Events of Default. Upon any such occasion, the Secured Party shall be authorized to sell, lease or dispose of all or any such part of the Collateral as it shall elect and as permitted by law. The remaining Collateral shall continue as security for any other sums remaining due after such sale, lease or disposition or thereafter to become due or payable on any of the Secured Obligations.

8. WAIVERS.

(a) No delay, omission or forbearance by the Secured Party in the exercise of any right, power or remedy conferred upon it herein or by law or equity, nor any continuance by the Secured Party of its performance shall be a waiver or excuse of the event giving rise to the

same. The single or partial exercise of a right, power or remedy does not preclude its further exercise from time to time and as often as may be deemed expedient by the Secured Party. No waiver by the Secured Party of any Event of Default or of any right, power or remedy hereunder shall operate as a waiver of any other Event of Default, right, power or remedy on a future occasion.

(b) The Debtor hereby waives, releases and discharges, to the full extent permitted by law, any right which it has or may have at law, in equity or by statute, to require the Secured Party to pursue or otherwise avail itself of any rights or remedies which it has or may have against any other Person with respect to the payment of the Notes or performance of the terms, covenants and conditions of the Loan Agreement and Collateral Documents or to pursue or exhaust any of its rights or remedies with respect to any other security for the satisfaction of the Secured Obligations or the performance of the terms, covenants and conditions of the Loan Agreement. The Debtor hereby waives and releases any right of marshalling of assets which it might otherwise have.

(c) No failure on the part of the Secured Party to exercise, and no delay on its part in exercising, any right, power or remedy hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any such right, power or remedy preclude any other or the further exercise thereof or the exercise of any other right, power or remedy. All remedies hereunder are cumulative and are not exclusive of any other remedies at law or in equity. All rights of the Secured Party, the security interests granted hereunder, and all obligations of the Debtor hereunder, shall be absolute and unconditional irrespective of:

(i) any lack of validity or enforceability of the Loan Agreement, the Notes, the Other Collateral Documents, any other related instrument or any other agreement or instrument relating thereto;

(ii) any change in the time, manner or place of payment of, or in any other term in respect of, all or any of the Secured Obligations, or any other amendment or waiver of or any consent to any departure from the Loan Agreement, the Notes, the other Collateral Documents or any other related instrument;

(iii) any exchange or release of, or non-perfection of any Lien or security on or in, any other collateral, or any release or amendment or waiver of or consent to departure from any guarantee, for all or any of the Secured Obligations.

9. DEBTOR LIABILITY AND INDEMNITIES. Anything herein to the contrary notwithstanding, (a) the Debtor shall remain liable under all contracts and agreements included in the Collateral to the extent set forth therein to perform all of the duties and obligations thereunder to the same extent as if this Agreement had not been executed, (b) the exercise by the Secured Party or the Banks of any of its or their rights hereunder shall not release the Debtor from any of its duties or obligations under the contracts and agreements included in the Collateral, and (c) neither the Secured Party nor any Bank shall have any obligation or liability

under the contracts and agreements included in the Collateral or be obligated to perform any of the obligations or duties of the Debtor thereunder or to take any action to collect or enforce any claim for payment assigned hereunder. The Debtor hereby agrees to indemnify and hold harmless the Secured Party and the Banks, and their respective directors, officers, attorneys, agents and employees (all such indemnified persons, including their heirs, successors, assigns and administrators, being referred to as "Indemnified Persons" for purposes of this Section 9), from and against any and all claims, demands, losses, costs, expenses, judgments and liabilities (including liabilities for penalties) of any nature whatsoever arising in connection with this Agreement or the exercise or enforcement by the Secured Party or any other indemnified Person of any right, power or remedy hereunder, except for losses which are found in a final non-appealable judgment by a court of competent jurisdiction to have resulted from the gross negligence or willful misconduct of such Indemnified Person. In no event shall the Secured Party, any Bank or any director, officer, attorney, agent or employee of the Secured Party or any Bank be liable to the Debtor for any action, matter or thing in connection with this Agreement other than gross negligence or willful misconduct and to account for moneys actually received by the Secured Party in accordance with the terms hereof.

10. POSSESSION OF COLLATERAL. So long as no Event of Default hereunder has occurred and is continuing, the Debtor may have and retain possession of the Collateral and use it in any lawful manner not inconsistent with the Loan Agreement, this Agreement, any Collateral Document or any policy of insurance thereon, unless possession of such Collateral by the Secured Party is necessary or appropriate to perfect the Secured Party's security interest therein.

11. TERMINATION OF SECURITY INTERESTS. This Agreement: and the security interests granted hereunder shall terminate when all amounts due and owing on account of, and all obligations and liabilities of the Debtor in respect of, the Secured Obligations shall have been fully, irrevocably and indefeasibly performed, satisfied and paid in cash, but only if the Banks shall then have no obligation or commitment to make further loans to the Debtor under the Loan Agreement. Upon the termination of the Secured Party's security interest in any Collateral, the Secured Party shall reassign and deliver to the Debtor, without recourse or representation, against the Debtor's receipt and at the Debtor's expense, such Collateral, all cash proceeds therefrom and all Related Documents relating thereto then held by the Secured Party. Upon such termination, at the request of the Debtor and at its expense, the Secured Party shall execute and deliver to the Debtor termination statements with respect to financing statements filed hereunder. Notwithstanding the foregoing, this Agreement shall continue to be effective or be reinstated and relate back to such time as though this Agreement had always been in effect, as the case may be, if at any time any amount received by the Secured Party or any Bank in respect of the Secured Obligations is rescinded or must otherwise be restored or returned by the Secured Party or any Bank upon the insolvency, bankruptcy, dissolution, liquidation or reorganization of the Debtor or upon the appointment of any intervenor or conservator of, or trustee or similar official for, the Debtor or any substantial part of its properties, or otherwise, all as though such payments had not been made.

12. MISCELLANEOUS.

12.1 Certain Regulatory Requirements.

(a) Debtor shall take all action that the Secured Party may reasonably request in the exercise of its rights and remedies hereunder, which includes the right to require the Debtor after the occurrence and during the continuance of an Event of Default to transfer or assign the FCC Licenses to any party or parties. In furtherance of this right, the Debtor shall, upon the occurrence and during the continuance of any Event of Default, (i) cooperate fully with the Secured Party in obtaining all approvals and consents from the FCC that the Secured Party may deem necessary or advisable to accomplish any such transfer or assignment of the FCC Licenses and (ii) for consent, certificate or instrument that the Secured Party may deem necessary or advisable to accomplish any such transfer or assignment of the FCC Licenses. If the Debtor fails to execute such applications, requests for consent, certificates or instruments, the clerk of any court that has jurisdiction over this Agreement may execute and file the same on behalf of the Debtor. To enforce the provisions of this Section, the Secured Party is authorized to request the consent or approval of the FCC to a voluntary or an involuntary transfer of control of the Debtor.

(b) Notwithstanding anything to the contrary contained in this Agreement:

(i) the Secured Party shall not take any action hereunder that would constitute or result in any transfer of control of the FCC Licenses or the Debtor without obtaining all necessary FCC approvals. The Secured Party and the Banks shall be entitled to rely on the advice of FCC counsel selected by the Secured Party to determine whether FCC approval is required, and

(ii) the Secured Party shall not foreclose on, sell, transfer or otherwise dispose of, or exercise any right to control the FCC Licenses as provided herein or take any other action that would affect the operational, voting, or other control of the Debtor, unless such action is taken in accordance with the provisions of the Communications Act of 1934, as from time to time amended, and the rules, regulations and policies of the FCC.

(c) The Debtor acknowledges that the approval of the FCC to the assignment of the FCC Licenses or the transfer of control of the Debtor is integral to the Secured Party's realization of the value of the Collateral, including the FCC Licenses, that there is no adequate remedy at law for failure by the Debtor to comply with the provisions of this Section and that such failure could not be adequately compensated by damages. Therefore, the Debtor agrees that the provisions of this Section may be specifically enforced.

12.2 Modification. Any term of this Agreement may be amended and the observance of any term of this Agreement may be waived (either Generally or a particular instance and either retroactively or prospectively) only with the written consent of the Debtor and the Secured Party. No waiver or any single breach or default under this Agreement shall be deemed a waiver of any other breach or default

12.3 Successors and Assigns. Subject to the limitations upon the sale, lease, transfer or other disposition of the Collateral by the Debtor set forth herein and in the Loan Agreement, all of the covenants, conditions and agreements herein contained shall be binding upon the Debtor and its successors and assigns; provided, however, that the Debtor may not assign or transfer any of its rights or obligations hereunder without the prior written consent of all of the Banks and the Secured Party. This Agreement shall inure to the benefit of the permitted successors and assigns of the Secured Party and the Banks, and, in the event of any transfer or assignment of rights by the Secured Party or the Banks, the rights and privileges herein conferred upon the Secured Party or the Banks shall automatically extend to and be vested in such permitted transferee or assignee, all subject to the terms and conditions hereof.

12.4 GOVERNING LAW. THIS AGREEMENT AND THE DUTIES, RIGHTS, POWERS AND REMEDIES OF THE PARTIES, HERETO SHALL BE CONSTRUED IN ACCORDANCE WITH, AND GOVERNED BY THE LAWS OF THE STATE OF GEORGIA WITHOUT REGARD TO THE CONFLICTS OF LAW PROVISIONS THEREOF, EXCEPT TO THE EXTENT THAT THE LOCAL LAW OF ANY JURISDICTION WHERE ANY COLLATERAL IS LOCATED GOVERNS THE GRANT, PERFECTION OR ENFORCEMENT OF THE SECURITY INTERESTS AND LIENS GRANTED PURSUANT TO THIS AGREEMENT. THE PROVISIONS OF THIS SECTION HAVE BEEN FULLY DISCUSSED BY THE SECURED PARTY ON BEHALF OF THE BANKS AND THE DEBTOR AND SHALL BE SUBJECT TO NO EXCEPTIONS. THE DEBTOR HAS MADE THIS CHOICE OF GOVERNING LAW KNOWINGLY AND WILLINGLY AND AFTER CONSULTING WITH ITS COUNSEL. NEITHER THE SECURED PARTY NOR THE DEBTOR HAS AGREED WITH OR REPRESENTED TO THE OTHER THAT THE PROVISIONS OF THIS SECTION WILL NOT BE FULLY ENFORCED IN ALL INSTANCES.

12.5 ENFORCEMENT. THE DEBTOR (A) HEREBY IRREVOCABLY SUBMITS TO THE JURISDICTION OF THE STATE COURTS OF THE STATE OF GEORGIA AND TO THE JURISDICTION OF THE UNITED STATES DISTRICT COURT FOR THE NORTHERN DISTRICT OF GEORGIA, FOR THE PURPOSE OF ANY SUIT, ACTION OR OTHER PROCEEDING ARISING OUT OF OR BASED UPON THIS AGREEMENT OR THE SUBJECT MATTER HEREOF BROUGHT BY THE SECURED PARTY OR THE BANKS OR THEIR SUCCESSORS OR ASSIGNS AND (B) HEREBY WAIVES, AND AGREES NOT TO ASSERT, BY WAY OF MOTION, AS A DEFENSE, OR OTHERWISE, IN ANY SUCH SUIT, ACTION OR PROCEEDING, ANY CLAIM THAT IT IS NOT SUBJECT PERSONALLY TO THE JURISDICTION OF THE ABOVE-NAMED COURTS, THAT ITS PROPERTY IS EXEMPT OR IMMUNE FROM ATTACHMENT OR EXECUTION, THAT THE SUIT, ACTION OR PROCEEDING IS BROUGHT IN AN INCONVENIENT FORUM, THAT THE VENUE OF THE SUIT, ACTION OR PROCEEDING IS IMPROPER OR THAT THIS AGREEMENT OR THE SUBJECT MATTER HEREOF MAY NOT BE ENFORCED IN OR BY SUCH COURT, AND (C) HEREBY WAIVES AND AGREES NOT TO SEEK ANY REVIEW BY ANY COURT OF ANY OTHER JURISDICTION WHICH MAY BE CALLED UPON TO GRANT AN ENFORCEMENT OF THE JUDGMENT OF ANY SUCH GEORGIA STATE OR FEDERAL COURT. THE DEBTOR HEREBY CONSENTS TO SERVICE OF

PROCESS BY REGISTERED MAIL AT THE ADDRESS TO WHICH NOTICES ARE TO BE GIVEN. THE DEBTOR AGREES THAT ITS SUBMISSION TO JURISDICTION AND ITS CONSENT TO SERVICE OF PROCESS BY MAIL IS MADE FOR THE EXPRESS BENEFIT OF THE SECURED PARTY AND THE BANKS. FINAL JUDGMENT AGAINST THE DEBTOR IN ANY SUCH ACTION, SUIT OR PROCEEDING MAY BE ENFORCED IN OTHER JURISDICTIONS BY SUIT, ACTION OR PROCEEDING ON THE JUDGMENT, OR IN ANY OTHER MANNER PROVIDED BY OR PURSUANT TO THE LAWS OF SUCH OTHER JURISDICTION; PROVIDED, HOWEVER, THAT THE SECURED PARTY OR THE BANKS MAY AT THEIR OPTION BRING SUIT OR INSTITUTE OTHER JUDICIAL PROCEEDINGS, AGAINST THE DEBTOR OR ANY OF ITS ASSETS IN ANY STATE OR FEDERAL COURT OF THE UNITED STATES OR OF ANY COUNTRY OR PLACE WHERE THE DEBTOR, OR SUCH ASSETS, MAY BE FOUND.

12.6 JURY TRIAL-WAIVER. THE DEBTOR AND THE SECURED PARTY, EACH WAIVE IRREVOCABLY, TO THE EXTENT PERMITTED BY LAW, ANY RIGHT TO HAVE A JURY PARTICIPATE IN RESOLVING ANY DISPUTE, WHETHER SOUNDING IN CONTRACT, TORT, OR OTHERWISE, BETWEEN THE SECURED PARTY OR ANY BANK AND THE DEBTOR ARISING OUT OF, IN CONNECTION WITH, RELATED TO, OR INCIDENTAL TO THE RELATIONSHIP ESTABLISHED BETWEEN THEM IN CONNECTION WITH THIS AGREEMENT OR THE NOTES OR OTHER INSTRUMENT, DOCUMENT OR AGREEMENT EXECUTED OR DELIVERED IN CONNECTION HERewith OR THE TRANSACTIONS RELATED HERETO. THE SCOPE OF THIS WAIVER IS INTENDED TO BE ALL-ENCOMPASSING OF ANY AND ALL DISPUTES THAT MAY BE FILED IN ANY COURT AND THAT RELATE TO THE SUBJECT MATTER OF THIS AGREEMENT AND THE TRANSACTIONS CONTEMPLATED HEREBY, INCLUDING, WITHOUT LIMITATION, CONTRACT CLAIMS, TORT CLAIMS, BREACH OF DUTY CLAIMS AND ALL OTHER COMMON LAW AND STATUTORY CLAIMS. THE DEBTOR AND THE SECURED PARTY ACKNOWLEDGE THAT THIS WAIVER IS A MATERIAL INDUCEMENT TO ENTER INTO A BUSINESS RELATIONSHIP, THAT EACH HAS ALREADY RELIED ON THE WAIVER IN ENTERING INTO THIS AGREEMENT AND THAT EACH WILL CONTINUE TO RELY ON THE WAIVER IN THEIR RELATED FUTURE DEALINGS. THE DEBTOR AND THE SECURED PARTY FURTHER WARRANT AND REPRESENT THAT EACH HAS REVIEWED THIS WAIVER WITH ITS LEGAL COUNSEL, AND THAT EACH KNOWINGLY AND VOLUNTARILY WAIVES ITS JURY TRIAL RIGHTS FOLLOWING CONSULTATION WITH LEGAL COUNSEL. THIS WAIVER IS IRREVOCABLE, MEANING THAT IT MAY NOT BE MODIFIED EITHER ORALLY OR IN WRITING (UNLESS EXPRESSLY MODIFIED IN WRITING BY ALL PARTIES HERETO), AND THE WAIVER SHALL APPLY TO ANY SUBSEQUENT AMENDMENTS. IN THE EVENT OF LITIGATION, THIS AGREEMENT MAY BE FILED AS A WRITTEN CONSENT TO A TRIAL BY THE COURT.

12.7 Notices. All notices, demands and requests required or permitted to be given under the provisions of this Agreement shall be in writing and shall be deemed to have been duly delivered and received if given in accordance with the provisions of the Loan Agreement.

12.8 Separability. If any one or more of the provisions contained in this Agreement should be invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of all remaining provisions shall not in any way be affected or impaired. Any provision of this Agreement which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof or affecting the validity or enforceability of such provision in any other jurisdiction.

12.9 Administrative Agent. The parties hereby acknowledge and reaffirm that the Secured Party has been designated to act as administrative for the Banks. All rights and remedies of the Secured Party hereunder may be exercised by the Secured Party on behalf of, and as administrative agent for, the Banks. The Banks may, pursuant to the terms of the Loan Agreement, appoint a successor administrative agent, who shall, upon appointment, succeed to all the rights and obligations of the Secured Party hereunder. The Debtor acknowledges that the rights of the Secured Party hereunder are for the benefit of each Bank, and that, upon the termination of the appointment of an agent under the Loan Agreement and the failure of the Banks to appoint a successor agent thereunder, the rights of the Secured Party under the covenants, conditions and agreements hereof shall inure to the benefit of the Banks. At any time or times, in order to comply with any legal requirement in any jurisdiction, the Secured Party may in good faith appoint one or more other Persons, either to act as co-agent or co-agents, jointly with the Secured Party, or to act as separate agent or agents on behalf of the Secured Party and the holders of the Secured Obligations, with such power and authority as may be necessary for the effectual operation of the provisions hereof and may be specified in the instrument of appointment (which may, in the discretion of the Secured Party, include provisions for the protection of such co-agent or separate agent similar to the provisions herein).

12.10 Section Headings. The section headings contained herein are for reference purposes only and shall not in any way affect the meaning and interpretation of this Agreement.

12.11 Pronouns. Any pronoun used herein shall be construed in the person, number and gender which is appropriate in the context.

12.12 Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original, but all of which together shall constitute one and same instrument.

[Remainder of This Page Intentionally Left Blank]

IN WITNESS WHEREOF, the undersigned have executed this Borrower Security Agreement on the day and year first above written.

SECURED PARTY:

NATIONSBANK, N.A., as Administrative Agent

c/Melinda Bergbom

Melinda Bergbom
Senior Vice President

DEBTOR:

GRAY COMMUNICATIONS SYSTEMS, INC.

c/Frederick J. Erickson

Frederick J. Erickson
Chief Financial Officer

AMENDED AND RESTATED
BORROWER SECURITY AGREEMENT
Signature Page 1

AMENDED AND RESTATED BORROWER PLEDGE AGREEMENT

THIS AMENDED AND RESTATED BORROWER PLEDGE AGREEMENT is made and entered into as of July 31, 1996, by and between GRAY COMMUNICATIONS SYSTEMS, INC., a Georgia corporation (the "Pledgor"), and NATIONS BANK, N.A. (the "Pledgee"), as administrative agent for itself and the other financial institutions listed on the signature pages of the Loan Agreement (as defined below), and their successors and assigns. The Pledgee and such other financial institutions may be referred to hereinafter individually as a "Bank" or collectively as the "Banks".

RECITALS

A. The Pledgor owns issued and outstanding capital stock of the corporations listed on Exhibit A attached hereto (collectively, the "Companies" and individually, a "Company") in the amounts set forth on Exhibit A, in each case, as Exhibit A may be supplemented from time to time in accordance with Section 29 hereof.

B. The Pledgor, Nations Bank, N.A., as Administrative Agent and Syndication Agent (each as defined in the Loan Agreement defined below), KeyBank National Association, as Documentation Agent (as defined in the Loan Agreement defined below), and the other Banks (as defined in the Loan Agreement defined below) have entered into that certain Amended and Restated Loan Agreement dated as of even date herewith (as the same may be extended, amended, restated or modified from time to time, the "Loan Agreement"), which is hereby incorporated herein by this reference, pursuant to which the Banks have agreed to make available to the Pledgor up to \$100,000,000 on a reducing revolving credit basis and up to \$100,000,000 on a term loan basis. All capitalized terms used herein and not otherwise defined herein shall have the meanings assigned to them in the Loan Agreement. The Pledgor may also be indebted to a Bank or an Affiliate of a Bank from time to time in respect of Rate Hedging Obligations.

C. In order to induce the Pledgee and the Banks to enter into the Loan Agreement and to ensure that the Loans made pursuant to the Loan Agreement will be secured as provided herein, the Pledgor has agreed to pledge its capital stock in the Companies to the Pledgee and grant to the Pledgee a first priority security interest in all of such capital stock as security for the Obligations incurred by the Pledgor under the Loan Agreement.

D. The Banks have appointed the Pledgee as their agent for the purpose, among other things, of protecting and preserving the security for the repayment of the Pledgor's Obligations under the Loan Agreement.

AGREEMENTS

In consideration of the foregoing Recitals, and of the agreements made herein, and of the Loans made or to be made by the Banks to the Pledgor, the Pledgor and the Pledgee, on behalf of the Banks, agree as follows:

1. GRANT OF SECURITY INTEREST; PLEDGE.

1.1. Pledged Collateral. The Pledgor hereby grants to the Pledgee, as agent for the Banks, ratably in proportion to the total Pledge Obligations (as that term is defined below), owing at any time to the Banks, a security interest in, and pledges, assigns and sets over to the Pledgee, for the benefit of the Banks, (a) all of the capital stock and other equity interests in each Company held by it (the "Pledged Shares"), (b) any additional capital stock or other equity interests of any Company hereafter issued or delivered to the Pledgor for any reason, (c) all options, warrants or rights exercisable for or convertible into any such capital stock or other equity interests and (d) all dividends, distributions, cash, property or other securities at any time and from time to time receivable or otherwise distributable in respect thereof, exchanged therefor, derived therefrom, substituted therefor, or otherwise subjected to the lien hereof pursuant to any provision hereof, and the proceeds thereof, including any and all distributions made on or in respect of the foregoing, whether resulting from a subdivision, combination, reorganization of any Company, a reclassification of outstanding capital stock of any Company or received in exchange for any of the foregoing or any part thereof or as a result of any merger, consolidation, acquisition or other sale or exchange of assets or on the liquidation, whether voluntary or involuntary, of any issuer of the Pledged Shares or otherwise (all of which Pledged Shares, additional capital stock or other equity interests, options, warrants, rights, dividends, distributions, cash, property, securities and proceeds are herein called the "Pledged Collateral").

1.2. Possession of Pledged Collateral. All certificates for the Pledged Shares, certificate for the Pledged Shares, certificates for any additional capital stock, other equity interests, options, warrants or rights, dividends, distributions, cash, property and securities comprising part of the Pledged Collateral shall be delivered to the Pledgee by the Companies or the Pledgor, and the Pledgor hereby authorizes and directs each Company to make such delivery to the Pledgee, and the Pledgor shall deliver to the Pledgee proper instruments of assignment therefor duly executed and endorsed by the Pledgor and such other instruments or documents (including, without limitation, financing statements) as the Pledgee may reasonably request sufficient to perfect the lien of the Pledgee in the Pledged Collateral and, upon the occurrence of an Event of Default, to transfer title thereto to the Pledgee or its nominee. Any Pledged Collateral which may at any time be in the possession of the Pledgor shall be promptly delivered to the Pledgee, and prior thereto, shall be deemed to be held in trust on behalf of the Pledgee as the Pledgee's agent.

1.3 Obligations Secured. The security interests granted by the Pledgor to the Pledgee under this Agreement secure (a) the payment and performance of all indebtedness, Obligations and liabilities of the Pledgor, arising at any time, now or in the future, pursuant to the Loan Agreement or any Collateral Document, including, without limitation, such obligations

as are evidenced by the Notes; (b) the payment and performance of all obligations and liabilities of the Pledgor arising at any time and from time to time, now or in the future, pursuant to any agreement with any Bank or any Affiliate of a Bank with respect to Rate Hedging Obligations; (c) performance by the Pledgor of its obligations and agreements set forth herein and in each other Collateral Document to which it is a party; (d) all payments made or expenses incurred by the Pledgee, including, without limitation, reasonable attorneys' fees and legal expenses, in the exercise, preservation or enforcement of any of the rights, powers or remedies of the Pledgee, or in the enforcement of the obligations of the Pledgor, hereunder; and (e) any renewals, continuations or extensions of any of the foregoing (all of which are referred to herein as the "Pledge Obligations").

1.4 Pledge a First Lien. The security interest of the Pledgee in the Pledged Collateral shall at all times be a first priority lien and security interest securing all of the Pledge Obligations.

1.5 Stockholder Liability. The security interests granted pursuant hereto are granted as security only and shall not subject the Pledgee or any Bank to any obligation or liability of the Pledgor with respect to any of the Pledged Collateral or any transaction in connection therewith.

2. VOTING RIGHTS; ETC. So long as no Event of Default, as defined in Section 9 below, shall have occurred and be continuing:

(a) The Pledgor shall have the right, from time to time, and for any purpose not inconsistent with the Loan Agreement or this Agreement, to vote and give consents with respect to the Pledged Shares and any additional capital stock, shares or other equity interests of each Company owned by it constituting part of the Pledged Collateral and to consent to or ratify any action taken at, or waive notice of, any meeting of stockholders or any committee of any Company with the same force and effect as if such capital stock were not pledged hereunder;

(b) The Pledgee shall, from time to time upon the written request of the Pledgor, give any necessary waivers of notice, consents and powers of attorney or proxies necessary to enable the Pledgor to exercise any of the foregoing rights;

(c) The Pledgor shall be entitled to retain and use any and all cash distributions paid on Pledged Collateral which are permitted by and in a manner consistent with the provisions of the Loan Agreement; provided, however, that any and all other distributions made on or in respect of the Pledged Collateral, whether resulting from a subdivision, combination, reorganization of any Company, a reclassification of outstanding shares of any Company or received in exchange for Pledged Collateral or any part thereof or as a result of any merger, consolidation, acquisition or other sale or exchange of assets or on the liquidation, whether voluntary or involuntary, of any issuer of the Pledged Collateral, or otherwise, shall be and become part of the Pledged Collateral pledged hereunder and, if received by any Company

or the Pledgor, shall forthwith be delivered to the Pledgee to be held subject to the terms of this Agreement; and

(d) The Pledgor shall be entitled to exercise any subscription or conversion privileges accruing to it as the owner of the Pledged Collateral to the extent permitted in the Loan Agreement, provided that any additional capital stock or other equity interests of any Company or any other issuer obtained or purchased on account of any such subscription or conversion privileges shall be delivered to and pledged with the Pledgee as part of the Pledged Collateral.

3. THE PLEDGOR'S REPRESENTATIONS AND WARRANTIES. The Pledgor represents and warrants that:

(a) The Pledged Shares constitute all of the issued and outstanding capital stock of each Company;

(b) The Pledged Shares constitute all of the shares of capital stock or other equity interests owned by the Pledgor;

(c) The Pledgor has, and has duly exercised, all requisite corporate power and authority to execute, deliver and perform this Agreement;

(d) This Agreement has been duly authorized and executed by the Pledgor and constitutes the legal, valid and binding obligation of the Pledgor, enforceable against the Pledgor in accordance with its terms, except as enforcement may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws relating to or limiting creditors' rights generally or by general principles of equity;

(e) The Pledgor is the full legal and beneficial owner of, and has good and marketable title to, the Pledged Shares set forth under its name on Exhibit A hereto, and such Pledged Shares are fully and accurately described on Exhibit A hereto (in each case, as Exhibit A may be supplemented from time to time in accordance with Section 29 hereof.

(f) The Pledged Shares have been duly and validly issued, are fully paid and non-assessable, and are free and clear of any liens, claims, options, demands and equities of third parties, except for the security interest granted hereunder to the Pledgee;

(g) The Pledgor's execution and delivery of this Agreement and the performance of its terms will not violate or constitute a default under the terms of (A) any organizational document of the Pledgor or any Company, or (B) any provision of any agreement, indenture, certificate or other instrument, license, judgment, decree, order, law, statute, ordinance or other governmental rule or regulation applicable to the Pledgor or any Company or the property of the Pledgor or any Company;

(h) Upon delivery to the Pledgee of the stock certificates evidencing the Pledged Shares, duly endorsed in blank, the Pledgee will have, for the benefit of the Banks, a valid first lien upon and perfected security interest in the Pledged Shares and the proceeds thereof;

(i) The principal place of business and chief executive office of the Pledgor is set forth below the Pledgor's name on the signature pages hereof;

(j) No consent or approval of, or filing with, any governmental authority or other Person, and no waiver of any lien or right of distraint or other similar right, and no license, authorization or declaration of any governmental authority, bureau or agency, is or will be required in connection with the execution, delivery, performance, validity, enforcement or priority of this Agreement or the security interest granted hereby or any agreements, instruments or documents to be executed or delivered pursuant hereto, except that the consent of the FCC may be required in order for the Pledgee to enforce certain of its rights hereunder upon the occurrence and during the continuance of an Event of Default;

(k) The pledge of the Pledged Collateral hereunder is effective to vest in the Pledgee the rights of the Pledgee in the Pledged Collateral as set forth herein; and

(l) The Pledgor has received, or is entitled to receive, reasonably equivalent value for the obligations and liabilities that it has incurred to the Pledgee and the Banks; the Pledgor is not insolvent as defined in Title 11 of the United States Code, or any other applicable federal or state bankruptcy or insolvency statute, nor, after giving effect to the consummation of the transactions contemplated in the Loan Agreement, including, without limitation, the execution and delivery of the Notes, will the Pledgor be rendered insolvent by the execution and delivery of this Agreement to the Pledgee; the Pledgor has not engaged, nor does it expect to engage, in any business or transaction for which the assets retained by it shall be an unreasonably small capital, taking into consideration the obligations to the Pledgee incurred hereunder; and the Pledgor does not intend to, nor does it believe that it will, incur debts beyond its ability to pay them as they mature.

4. CERTAIN COVENANTS.

4.1 Negative Covenants. The Pledgor shall not:

(a) sell, convey or otherwise dispose of any of the Pledged Collateral or any interest therein or create, incur, or permit to exist any Lien, claim, option, demand or equity of third parties on or with respect to any of the Pledged Collateral or the proceeds thereof, other than as created hereby;

(b) enter into or consent to any agreement, indenture, license or other instrument or any amendment or modification thereof which would be violated by, or require the consent or approval of any Person to, the performance or enforcement of this Agreement or permit any of its Subsidiaries to do any of the foregoing;

(c) consent to or approve the issuance of (i) any additional capital stock or other equity interests of any class of any issuer of Pledged Collateral, (ii) any securities convertible voluntarily by the holder thereof or automatically upon the occurrence or nonoccurrence of any event or condition into, or exchangeable for, any such capital stock or other equity securities, or (iii) any warrants, options, rights or other commitments entitling any Person to purchase or otherwise acquire any such capital stock or other equity securities;

(d) vote, consent or otherwise act in a manner with respect to the Pledged Collateral which would cause or constitute an Event of Default under or would otherwise be inconsistent with the terms of the Loan Agreement, this Agreement, any other Collateral Document or any related instrument, and nothing contained in Section 2 shall be construed to vary or modify any such terms;

(e) agree to amend, modify or supplement the Certificate or Articles of Incorporation or By-Laws of any Company or any other organization or governing documents, unless required by law, if such amendment, modification or supplement would adversely affect in any respect any of the Pledgee's interest, rights or remedies under this Agreement or the Collateral Documents or the ability of the Pledgor or any of its Subsidiaries to pay or perform the Obligations;

(f) do or permit any act in contravention of the Certificate or Articles of Incorporation or By-Laws of any Company; or

(g) take any action which could reasonably be expected to interfere with, hinder or delay the exercise of the Pledgee's rights under this Agreement or any other Collateral Documents or any other instrument, document or agreement relating to any of the foregoing.

4.2 Affirmative Covenants. The Pledgor shall:

(a) at its own expense, defend the Pledgee's right, title and security interest in and to the Pledged Collateral against the claims of any other Person;

(b) use its best efforts to obtain any consent of the FCC and each other Licensing Authority and each other Person which may be required in connection with the performance or enforcement of this Agreement and any transfer of the Pledged Collateral contemplated hereby, and will cooperate fully with the Pledgee in effecting any such transfer or in connection with the Pledgee's exercise of the rights and remedies granted to the Pledgee pursuant hereto or pursuant to any other Collateral Document;

(c) pay and discharge promptly, and in any event before the imposition of any penalty, all taxes and assessments upon any portion of the Pledged Collateral owned by it, except that the Pledgor shall not be required to pay any such tax or assessment the payment of

which is being contested in good faith and by appropriate proceedings and against which adequate reserves are being maintained;

(d) comply in all material respects with all federal, state and local laws, rules and regulations applicable to it or its property or business, the failure to comply with which could reasonably be expected to have a Material Adverse Effect;

(e) notify the Pledgee in writing at least thirty days in advance of any change in the Pledgor's chief executive office or principal place of business and execute any financing statements or amendments covering the Pledged Collateral as the Pledgee may from time to time reasonably request;

(f) promptly deliver to the Pledgee all material written notices and communications given or received by it with respect to any Pledged Collateral; and

(g) pledge hereunder, immediately upon its acquisition, (directly or indirectly) thereof, any and all shares of stock or other equity interest of any Person which, after the date of this Agreement, becomes a Subsidiary of the Pledgor.

5. RIGHT OF THE PLEDGEE TO DEAL WITH COLLATERAL DOCUMENTS, ETC.

The Pledgee may deal in any manner with any Collateral Document to which the Pledgor is not a party in accordance with or as permitted by the terms thereof (as may be amended from time to time), subject in all cases to such approval or agreement by the parties thereto as may be required by the terms of such documents, without notice to or the consent of the Pledgor. No action which the Pledgee may take or fail to take in accordance with or permitted by any Collateral Document to which the Pledgor is not a party (as any of the foregoing may be amended from time to time) pursuant to the foregoing powers shall operate to release any of the Pledged Collateral, terminate or modify the terms of this Agreement or impose any liability on the Pledgee.

6. RIGHTS OF THE PLEDGEE UPON DEFAULT. Upon the occurrence and during the continuance of any Event of Default, the Pledgee shall, subject to Section 17 and compliance with all applicable requirements of law, in addition to all other rights and remedies it may have under the Uniform Commercial Code or any other law, have the rights and remedies set forth in this Section 6:

6.1 Voting and Other Rights. Upon ten days prior written notice to the Pledgor, whether or not the Pledged Collateral shall have been registered in the name of the Pledgee or its nominee, the Pledgee or its nominee shall have, with respect to the Pledged Collateral, the right to exercise all voting rights, and all other stockholder rights and all conversion, exchange, subscription and other rights, privileges or options pertaining thereto as if it were the absolute owner thereof, including, without limitation, the right to exchange any or all of the Pledged Collateral upon the merger, consolidation, reorganization, recapitalization or other readjustment of any Company, or upon the exercise by any Company of any right, privilege, or option pertaining to any of

the Pledged Collateral, and, in connection therewith, to deliver any of the Pledged Collateral to any committee, depository, transfer agent, registrar or other designated agency upon such terms and conditions as it may determine, all without liability except to account for property actually received by it; but the Pledgee shall have no duty to exercise any of the aforesaid rights, privileges or options and shall not be responsible for any failure to do so or delay in so doing.

6.2 Sale of Pledged Collateral.

(a) Upon at least ten days written notice to the Pledgor, which notice the Pledgor agrees is reasonable, and without further demand, advertisement or notice of any kind, all of which are hereby expressly waived, the Pledgee shall have the right to sell, assign and deliver the whole or any part of the Pledged Collateral, at any time or times, within or without Charlotte, North Carolina, at public or private sale or at any broker's board or on any securities exchange, for cash, on credit, or for other property, for immediate or future delivery, and for such price or prices and on such terms as the Pledgee may determine to be commercially reasonable, and in connection therewith the Pledgee or any Bank at any sale may bid for or purchase the whole or any part of the Pledged Collateral so offered for sale, free from any right of redemption, stay or appraisal on the part of the Pledgor, all of which rights the Pledgor hereby waives and releases, to the full extent permitted by law.

(b) (i) If at any time or times, in the opinion of the Pledgee, it should be necessary or desirable, in order for the Pledgee to dispose of all or any part of the Pledged Collateral in any sale or sales pursuant hereto, to comply with or to register or qualify all or any part of the Pledged Collateral under the Securities Act of 1933, as amended (the "Securities Act"), or under any similar Federal statute then in effect, or any rules or regulations thereunder, and/or to comply with the laws, rules and regulations of any state regulating the sale of securities, the Pledgor shall, upon the request of the Pledgee, as expeditiously as possible and in good faith, use its best efforts to cause each Company to effect and continue such registration, qualification and compliance. The Pledgor further shall, and shall cause each Company to, indemnify and hold harmless the Pledgee and any underwriter from and against any claims and liabilities caused by any untrue statement of a material fact or omission to state a material fact required to be stated in any registration statement, offering circular or prospectus used in connection with such registration, qualification or compliance, or necessary to make the statements therein not misleading, except insofar as such claims or liabilities are caused by any untrue statement or omission based upon or in conformity with information furnished by the Pledgee expressly for the purpose of inclusion in such registration statement, offering circular or prospectus.

(ii) Notwithstanding the foregoing, the Pledgor recognizes that the Pledgee may be unable to effect a public sale of all or a part of the Pledged Collateral or that it may be commercially unreasonable to do so, and may find it appropriate or necessary to resort to one or more private sales to a restricted group of purchasers who will be obligated to agree, among other things, to acquire such securities for their own account, for investment and not with a view to the distribution or resale thereof. The Pledgor acknowledges that any such private sales may be at places and on terms less favorable to the seller than if sold at public sales and

agrees that such private sales shall not by reason thereof be deemed to have been made in a commercially unreasonable manner, and that the Pledgee shall have no obligation to delay the sale of any such securities for the period of time necessary to permit the issuer of such securities to register such securities for public sale under the Securities Act or any other applicable securities law.

(iii) The Pledgee shall be authorized at any sale to restrict the prospective bidders or purchasers to Persons who will be eligible to hold or control the applicable Licenses under FCC and other governmental regulations, the terms of the Licenses and other applicable law, rules and regulations.

(iv) The Pledgee may take all such further acts as it may in its reasonable discretion deem necessary or advisable for the Pledgee's or the Banks' protection or for compliance with any provision of law, even if such act might, whether by limiting the market or by adding to the costs of sale or otherwise, reduce prices that might otherwise be obtained for the Pledged Collateral being sold or otherwise restrict the net proceeds available from the sale thereof. Upon consummation of any such sale, the Pledgee shall have the right to assign, transfer, endorse and deliver to the purchaser or purchasers thereof the Pledged Collateral so sold. Each such purchaser at any such sale shall hold the property sold absolutely free from any claim or right on the part of the Pledgor, and the Pledgor hereby waives, to the full extent permitted by law, all rights of redemption, stay or appraisal which the Pledgor now has or may at any time in the future have under any rule of law or statute now existing or hereafter enacted. For purposes of this Section 6.2, an agreement to sell all or any part of the Pledged Collateral shall be treated as a sale of such Pledged Collateral, and the Pledgee shall be free to carry out the sale of any Pledged Collateral pursuant to any such agreement and the Pledgor shall not be entitled to the return of any such Pledged Collateral subject thereto, notwithstanding that after the Pledgee shall have entered into such an agreement, all Events of Default may have been remedied.

(c) The proceeds of any sale, collection or other realization upon or of the Pledged Collateral shall be applied (i) first, to the actual expenses incurred by the Pledgee in connection with this Agreement or the exercise of any right or remedy hereunder, or any sale or disposition, including, without limitation, the expenses of taking, holding, advertising and preparing the Pledged Collateral for sale or disposition, the expenses incurred in registering the Pledged Collateral as provided in Section 6.2(b)(i), all court costs and the Pledgee's reasonable attorneys' fees, (ii) next, to all advances made by the Pledgee hereunder for the account of the Pledgor and all costs and expenses paid or incurred by the Pledgee in connection with this Agreement or any right or remedy hereunder, (iii) next, pro rata to the Banks, to the principal of and interest on the Notes and all other Pledge Obligations, and (iv) lastly, any surplus to the Pledgor, except as otherwise required by law or as a court of competent jurisdiction may otherwise direct. The Pledgor and each other Person which may become liable on or with respect to the Notes shall nevertheless remain liable for any deficiency.

6.3 Rights Cumulative. The rights and the remedies provided in this Agreement are cumulative and in addition to any rights and remedies which the Pledgee may

have under the Loan Agreement, the Notes, any other Collateral Document or at law (including, without limitation, under the Uniform Commercial Code) or in equity.

7. WAIVER. The Pledgor hereby waives, releases and discharges, to the full extent permitted by law, any right which it has or may have at law, in equity or by statute, to require the Pledgee to pursue or otherwise avail itself of any rights or remedies which it has or may have against any Company or any other Person with respect to the payment of the Notes or performance of the terms, covenants and conditions of the Loan Agreement and Collateral Documents or to pursue or exhaust any of its rights or remedies with respect to any other security for the satisfaction of the Pledge Obligations or the performance of the terms, covenants and conditions of the Loan Agreement. The Pledgor hereby waives and releases any right of marshaling of assets which it might otherwise have.

8. PLEDGOR'S RIGHT OF SUBROGATION OR REIMBURSEMENT. The Pledgor shall not have any right of subrogation or reimbursement with respect to the Loan Agreement, the Notes or any other Collateral Document unless and until such time as the Pledgee and the Banks shall have received indefeasible payment in full in cash of all principal of and interest owed to them with respect to the Loan Agreement and the Notes and of all other Pledge Obligations.

9. EVENT OF DEFAULT DEFINED. The occurrence of any "Event of Default", as defined in the Loan Agreement, shall be an "Event of Default" under this Agreement.

10. THE PLEDGEE APPOINTED ATTORNEY-IN-FACT. The Pledgor hereby irrevocably constitutes and appoints the Pledgee as its attorney-in-fact, effective upon, and during the continuance of, an Event of Default, with full power of substitution, for the purpose of carrying out the provisions of this Agreement and taking any action and executing any instrument which the Pledgee may deem necessary or advisable to accomplish the purposes hereof, which appointment is irrevocable and coupled with an interest. Without limiting the generality of the foregoing, the Pledgee shall have the right with full power of substitution, either in the name of the Pledgee or in the name of the Pledgor, effective upon, and during the continuance of, an Event of Default, to ask for, demand, sue for, collect, review, receipt and give acquittance for any and all moneys due or to become due by virtue of any Pledged Collateral, to endorse checks, drafts, orders and other instruments for the payment of money payable to the Pledgor representing any interest or dividend or other distribution payable in respect of the Pledged Collateral or any part thereof or on account thereof, and to sell, assign, endorse, pledge, transfer and make any agreement respecting, or otherwise deal with, the same; provided, however, that nothing herein contained shall be construed as requiring or obligating the Pledgee to make any commitment or to make any inquiry as to the nature or sufficiency of any payment received by it, or to present or file any claim or notice, or take any action with respect to the Pledged Collateral or any part thereof or the moneys due or to become due in respect thereof or any property covered thereby, and no action taken by the Pledgee or omitted to be taken with respect to the Pledge Collateral or any part thereof shall give rise to any defense, counterclaim or offset in favor of the Pledgor or to any claim or action against the Pledgee or the Banks, except

for the gross negligence or willful misconduct of the Pledgee or such Bank as finally determined by a court of competent jurisdiction.

11. DISCHARGE OF THE PLEDGOR. At such time as all of the principal of and interest on the Notes, together with any and all other Pledge Obligations shall have been fully, irrevocably and indefeasibly paid in cash and satisfied, and the Pledgee and the Banks shall not have any further obligations or commitments under the Loan Agreement, then all rights and interests in such Pledged Collateral as shall not have been sold or otherwise applied by the Pledgee pursuant to the terms hereof and shall still be held by it shall forthwith be transferred and delivered, together with any termination statements or other instruments necessary to evidence the termination of the interests of the Pledgee therein, without recourse or representation, to the Pledgor at the Pledgor's expense, and the right, title and interest of the Pledgee therein shall cease. Notwithstanding the foregoing, this Agreement shall continue to be effective or be reinstated and relate back to such time as though this Agreement had always been in effect, as the case may be, if at any time any amount received by the Pledgee or any Bank in respect of the Pledge Obligations is rescinded or must otherwise be restored or returned by the Pledgee or such Bank upon the insolvency, bankruptcy, dissolution, liquidation or reorganization of any Company or the Pledgor or any Affiliate of any Company or the Pledgor or upon the appointment of any intervenor or conservator of, or trustee or similar official for, any Company or the Pledgor or any Affiliate of any Company or the Pledgor or any substantial part of its properties, or otherwise, all as though such payments had not been made.

12. NOTICES. All notices, demands and requests required or permitted to be given under the provisions of this Agreement shall be in writing and shall be deemed to have been duly delivered and received if given in accordance with the provisions of the Loan Agreement with the address of the Pledgor being as set forth following its signature on the signature page of this Agreement.

13. REIMBURSEMENT OF THE PLEDGEE.

13.1 Indemnity. The Pledgor hereby agrees to indemnify and hold harmless the Pledgee, the Banks and their respective officers, directors, employees and agents (to the full extent permitted by law) from and against any and all claims, demands, losses, judgments and liabilities (including liabilities for penalties) of any nature whatsoever, and to reimburse the Pledgee, the Banks and their respective officers, directors, employees and agents, for all costs and expenses, including legal fees and disbursements, growing out of or resulting from the Pledgor's breach of, or failure to perform, this Agreement. In no event shall the Pledgee or any Bank be liable to the Pledgor for any action, matter or thing in connection with this Agreement other than gross negligence or willful misconduct as determined by a final non-appealable judgment of a court of competent jurisdiction and to account for moneys or Pledged Collateral actually received by the Pledgee in accordance with the terms hereof.

13.2 Action for the Pledgor. If the Pledgor shall fail to do any act or thing which it has covenanted to do hereunder or if any representation or warranty of the Pledgor hereunder shall be breached, the Pledgee may (but shall not be obligated to) do the same or cause

it to be done, or remedy any such breach, and there shall be added to the Pledge Obligations the cost or expense incurred by the Pledgee in so doing, and any and all amounts expended by the Pledgee in taking any such action shall be secured by this Agreement and shall bear interest at the Default Interest Rate.

14. FURTHER ASSURANCES. The Pledgor shall join with the Pledgee in executing, at the Pledgor's expense, such notices, financing statements or other documents or instruments, in form and substance reasonably satisfactory to the Pledgee, as the Pledgee may deem to be necessary or appropriate for the perfection of the security interests of the Pledgee hereunder. In addition, the Pledgor shall do such further acts and things and execute and deliver to the Pledgee such additional conveyances, assignments, agreements, financing statements and instruments as the Pledgee may at any time and from time to time reasonably request in connection with the administration and enforcement of this Agreement or relatives to the Pledged Collateral or any part thereof or in order to assure and confirm unto the Pledgee its rights, powers and remedies hereunder.

15. REGISTRATION OF PLEDGE. The Pledgor hereby agrees, to the extent necessary to perfect the Pledgee's Lien in the Pledged Collateral, to request and direct each Company to register on the books of such Company the security interests and pledge granted by the Pledgor to the Pledgee pursuant to this Agreement.

16. NO WAIVER; SECURITY INTEREST ABSOLUTE. No failure on the part of the Pledgee to exercise, and no delay on its part in exercising, any right, power or remedy hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any such right, power or remedy preclude any other or the further exercise thereof or the exercise of any other right, power or remedy. All remedies hereunder are cumulative and are not exclusive of any other remedies at law or in equity. All rights of the Pledgee, the security interest granted hereunder, and all obligations of the Pledgor hereunder, shall be absolute and unconditional irrespective of:

(a) any lack of validity or enforceability of the Loan Agreement, the Notes, any other Collateral Document, any other related instrument or any other agreement or instrument relating thereto;

(b) any change in the time, manner or place of payment of, or in any other term in respect of, or any increase in the amount of, all or any of the Pledge Obligations, or any other amendment or waiver of any term of, or any consent to any departure from any requirement of, the Loan Agreement, the Notes, any other Collateral Document or any other related instrument; or

(c) any exchange or release of, or non-perfection of any Lien or security on or in, any other collateral, or any release or amendment or waiver of any term of, or any consent to any departure from any requirement of, the Loan Agreement, any other Collateral Document or any guarantee, for all or any of the Pledge Obligations.

17. FCC AND OTHER LICENSING AUTHORITY COMPLIANCE.

(a) Notwithstanding any other provision of this Agreement, any foreclosure on, sale, transfer or other disposition of, or the exercise of any right to vote or consent with respect to, any of the Pledged Collateral as provided herein or any other action taken or proposed to be taken by the Pledgee hereunder which would affect the operational, voting or other control of the Pledgor or any of its Subsidiaries which holds any FCC License shall be made in accordance with the Communications Act of 1934, as amended, the terms of any applicable Licenses and any other applicable law, rules and regulations.

(b) If an Event of Default shall have occurred and be continuing, the Pledgor shall take any action which the Pledgee may request in the exercise of its rights and remedies under this Agreement in order to transfer and assign to the Pledgee, any Bank, or to such one or more third parties as the Pledgee may designate, or to a combination of the foregoing, any or all of the Pledged Collateral. To enforce the provisions of this Section, the Pledgee is empowered to seek from the FCC and any other Licensing Authority, to the extent required, consent to or approval of an involuntary transfer of control of the Pledgor and any of its Subsidiaries which holds an FCC License for the purpose of seeking a bona fide purchaser to whom control will ultimately be transferred. The Pledgor hereby agrees to authorize such an involuntary transfer of control upon the request of the Pledgee and, without limiting any rights of the Pledgee under this Agreement, authorize the Pledgee to nominate a trustee or receiver to assume control, subject only to any required judicial, FCC and other governmental consent, of the Pledgor or any such Subsidiary pending and in order to effectuate the transactions contemplated by Section 6.2. Such trustee or receiver shall have all the rights and powers as provided to it by law, court order or to the Pledgee under this Agreement. The Pledgor shall cooperate fully and cause each of its Subsidiaries to cooperate fully in obtaining any required consent of the FCC or any other governmental body required to effectuate the foregoing. The Pledgor shall further use its best efforts to assist in obtaining any consent or approval of the FCC and any other governmental body, if required, for any action or transactions contemplated by this Agreement, including, without limitation, the preparation, execution and filing with the FCC of the assignor's or transferor's portion of any application or applications for consent to the assignment of the Pledgor's or any of its Subsidiaries' FCC Licenses or the transfer of control necessary or appropriate under the FCC's rules and regulations for approval of the transfer or assignment of any portion of such FCC Licenses or the Pledged Collateral.

(c) The Pledgor acknowledges that consent of the FCC and any other governmental body for transfer of control of the Licenses of the Pledgor or any of its Subsidiaries is integral to the Pledgee's realization of the value of the Pledged Collateral, that there is no adequate remedy at law for failure by the Pledgor to comply with the provisions of this Section and that such failure would not be adequately compensable in damages, and therefore agrees that the agreements contained in this Section may be specifically enforced.

(d) Notwithstanding anything to the contrary contained in this Agreement, the Pledgee shall not, without first obtaining any consent or approval of the FCC and any other applicable governmental body, taken any action pursuant to this Agreement which

would constitute or result in any change of control of the Pledgor or any of its Subsidiaries which holds an FCC License if any such change in control would require, under then existing law, the prior approval of the FCC or such other governmental body.

(e) Notwithstanding anything herein to the contrary, prior to the occurrence of an Event of Default and receipt of consent of the FCC and any other applicable governmental body to the transfer of control of the Pledgor or any of its Subsidiaries which holds an FCC License, this Agreement and the transactions contemplated hereby do not and will not constitute, create, or have the effect of constituting or creating, directly or indirectly, actual or practical ownership of the Pledgor or any such Subsidiary by the Pledgee or any of the Banks or control, affirmative or negative, direct or indirect, by the Pledgee or any of the Banks over the management or any other aspect of the operation of the Pledgor or any such Subsidiary, which ownership and control remain exclusively and at all times in the Pledgor and such Subsidiary, as the case may be.

18. RESTRICTIONS ON TRANSFERS OF STOCK NOT APPLICABLE. The Pledgor hereby agrees that the pledge of the Pledged Collateral to the Pledgee hereunder and the sale of the Pledged Collateral by the Pledgee in accordance with the provisions of this Agreement shall be free from restrictions on the transfer of capital stock or other equity interests of each Company, if any, contained in the Certificate or Articles of Incorporation, By-Laws or other organizational document of such Company or in any agreement among the stockholders of such Company. The Pledgor hereby consents to the exercise by the Pledgee of any of its rights and remedies hereunder upon the occurrence and during the continuance of an Event of Default and agrees that the Pledgee shall have the right to exercise such rights and remedies in accordance with the terms hereof upon the occurrence and during the continuance of an Event of Default notwithstanding any restrictions set forth in the Certificate or Articles of Incorporation, By-Laws or other organizational document of any Company or in any agreement among the stockholders of any Company.

19. MODIFICATION. Any term of this Agreement may be amended and the observance of any term of this Agreement may be waived either generally or in a particular instance, and either retroactively or prospectively, only with the written consent of the Pledgor and the Pledgee. No waiver or any single breach of default under this Agreement shall be deemed a waiver of any other breach or default.

20. SUCCESSORS AND ASSIGNS. Subject to the limitations upon the sale, lease, transfer or other disposition of the Pledged Collateral by the Pledgor set forth herein and in the Loan Agreement, all of the covenants, conditions and agreements herein contained shall be binding upon the Pledgor and its successors and assigns; provided, however, that the Pledgor may not assign or transfer any of its rights or obligations hereunder without the prior written consent of all the Banks and the Pledgee. This Agreement shall inure to the benefit of the permitted successors and assigns of the Pledgee and the Banks, and, in the event of any transfer or assignment of rights by the Pledgee or the Banks, the rights and privileges herein conferred upon the transferring Pledgee or Bank shall automatically extend to and be vested in such permitted transferee or assignee, all subject to the terms and conditions hereof.

21. GOVERNING LAW. THIS AGREEMENT AND THE DUTIES, RIGHTS, POWERS AND REMEDIES OF THE PARTIES HERETO SHALL BE CONSTRUED IN ACCORDANCE WITH, AND GOVERNED BY, THE LAWS OF THE STATE OF GEORGIA, WITHOUT REGARD TO ANY CONFLICTS OF LAWS PROVISIONS THEREOF. THE PROVISIONS OF THIS SECTION HAVE BEEN FULLY DISCUSSED BY THE PLEDGEE AND THE PLEDGOR AND SHALL BE SUBJECT TO NO EXCEPTIONS. THE PLEDGOR HAS MADE THIS CHOICE OF GOVERNING LAW KNOWINGLY AND WILLINGLY AND AFTER CONSULTING WITH ITS COUNSEL. NEITHER THE PLEDGEE NOR THE PLEDGOR HAS AGREED WITH OR REPRESENTED TO THE OTHER THAT THE PROVISIONS OF THIS SECTION WILL NOT BE FULLY ENFORCED IN ALL INSTANCES.

22. ENFORCEMENT. THE PLEDGOR (A) HEREBY IRREVOCABLY SUBMITS TO THE JURISDICTION OF THE STATE COURTS OF THE STATE OF GEORGIA AND TO THE JURISDICTION OF THE UNITED STATES DISTRICT COURT FOR THE NORTHERN DISTRICT OF GEORGIA, FOR THE PURPOSE OF ANY SUIT, ACTION OR OTHER PROCEEDING ARISING OUT OF OR BASED UPON THIS AGREEMENT OR THE SUBJECT MATTER HEREOF BROUGHT BY THE AGENT OR THE BANKS OR THEIR SUCCESSORS OR ASSIGNS AND (B) HEREBY WAIVES, AND AGREES NOT TO ASSERT, BY WAY OF MOTION, AS A DEFENSE, OR OTHERWISE, IN ANY SUCH SUIT, ACTION OR PROCEEDING, ANY CLAIM THAT IT IS NOT SUBJECT PERSONALLY TO THE JURISDICTION OF THE ABOVE-NAMED COURTS, THAT ITS PROPERTY IS EXEMPT OR IMMUNE FROM ATTACHMENT OR EXECUTION, THAT THE SUIT, ACTION OR PROCEEDING IS BROUGHT IN AN INCONVENIENT FORUM, THAT THE VENUE OF THE SUIT, ACTION OR PROCEEDING IS IMPROPER OR THAT THIS AGREEMENT OR THE SUBJECT MATTER HEREOF MAY NOT BE ENFORCED IN OR BY SUCH COURT, AND (C) HEREBY WAIVES AND AGREES NOT TO SEEK ANY REVIEW BY ANY COURT OF ANY OTHER JURISDICTION WHICH MAY BE CALLED UPON TO GRANT AN ENFORCEMENT OF THE JUDGMENT OF ANY SUCH GEORGIA STATE OR FEDERAL COURT. THE PLEDGOR HEREBY CONSENTS TO SERVICE OF PROCESS BY REGISTERED MAIL AT THE ADDRESS TO WHICH NOTICES ARE TO BE GIVEN. THE PLEDGOR AGREES THAT ITS SUBMISSION TO JURISDICTION AND ITS CONSENT TO SERVICE OF PROCESS BY MAIL IS MADE FOR THE EXPRESS BENEFIT OF THE AGENT AND THE BANKS. FINAL JUDGMENT AGAINST THE PLEDGOR IN ANY SUCH ACTION, SUIT OR PROCEEDING MAY BE ENFORCED IN OTHER JURISDICTIONS BY SUIT, ACTION OR PROCEEDING ON THE JUDGMENT, OR IN ANY OTHER MANNER PROVIDED BY OR PURSUANT TO THE LAWS OF SUCH OTHER JURISDICTION; PROVIDED, HOWEVER, THAT THE AGENT OF THE BANKS MAY AT THEIR OPTION BRING SUIT, OR INSTITUTE OTHER JUDICIAL PROCEEDINGS, AGAINST THE PLEDGOR OR ANY OF ITS ASSETS IN ANY STATE OR FEDERAL COURT OF THE UNITED STATES OR OF ANY COUNTRY OR PLACE WHERE THE PLEDGOR, OR SUCH ASSETS, MAY BE FOUND.

23. JURY TRIAL WAIVER. THE PLEDGOR AND THE PLEDGEE EACH WAIVES IRREVOCABLY, TO THE EXTENT PERMITTED BY LAW, ANY RIGHT TO HAVE A JURY PARTICIPATE IN RESOLVING ANY DISPUTE, WHETHER SOUNDING IN CONTRACT, TORT, OR OTHERWISE, BETWEEN THE PLEDGEE OR ANY BANK AND THE PLEDGOR ARISING OUT OF, IN CONNECTION WITH, RELATING TO, OR INCIDENTAL TO THE RELATIONSHIP ESTABLISHED BETWEEN THEM IN CONNECTION WITH THIS AGREEMENT OR THE NOTES OR OTHER INSTRUMENT, DOCUMENT OR AGREEMENT EXECUTED OR DELIVERED IN CONNECTION HERewith OR THE TRANSACTIONS RELATED HERETO. THE SCOPE OF THIS WAIVER IS INTENDED TO BE ALL-ENCOMPASSING OF ANY AND ALL DISPUTES THAT MAY BE FILED IN ANY COURT AND THAT RELATE TO THE SUBJECT MATTER OF THIS AGREEMENT AND THE TRANSACTIONS CONTEMPLATED HEREBY, INCLUDING, WITHOUT LIMITATION, CONTRACT CLAIMS, TORT CLAIMS, BREACH OF DUTY CLAIMS AND ALL OTHER COMMON LAW AND STATUTORY CLAIMS. THE PLEDGOR AND THE PLEDGEE ACKNOWLEDGE THAT THIS WAIVER IS A MATERIAL INDUCEMENT TO ENTER INTO A BUSINESS RELATIONSHIP, THAT EACH HAS ALREADY RELIED ON THE WAIVER IN ENTERING INTO THIS AGREEMENT AND THAT EACH WILL CONTINUE TO RELY ON THE WAIVER IN THEIR RELATED FUTURE DEALINGS. THE PLEDGOR AND THE PLEDGEE FURTHER WARRANT AND REPRESENT THAT EACH HAS REVIEWED THIS WAIVER WITH ITS LEGAL COUNSEL, AND THAT EACH KNOWINGLY AND VOLUNTARILY WAIVES ITS JURY TRIAL RIGHTS FOLLOWING CONSULTATION WITH LEGAL COUNSEL. THIS WAIVER IS IRREVOCABLE, MEANING THAT IT MAY NOT BE MODIFIED EITHER ORALLY OR IN WRITING (UNLESS EXPRESSLY MODIFIED IN WRITING BY ALL PARTIES HERETO), AND THE WAIVER SHALL APPLY TO ANY SUBSEQUENT AMENDMENTS. IN THE EVENT OF LITIGATION, THIS AGREEMENT MAY BE FILED AS A WRITTEN CONSENT TO A TRIAL BY THE COURT.

24. SEPARABILITY. If any one or more of the provisions contained in this Agreement should be invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of all remaining provisions shall not in any way be affected or impaired. Any provision of this Agreement which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof or affecting the validity or enforceability of such provision in any other jurisdiction.

25. ADMINISTRATIVE AGENT. The parties hereby acknowledge and reaffirm that the Pledgee has been designated to act as administrative agent for the Banks. All rights and remedies of the Pledgee hereunder may be exercised by the Pledgee on behalf of, and as administrative agent for, the Banks. The Banks may, pursuant to the terms of the Loan Agreement, appoint a successor administrative agent, who shall, upon appointment, succeed to all the rights and obligations of the Pledgee hereunder. The Pledgor acknowledges that the rights of the Pledgee hereunder are for the benefit of each Bank, and that, upon the termination of the appointment of an administrative agent under the Loan Agreement and the failure of the Banks to appoint a successor administrative agent thereunder, the rights of the Pledgee under the

covenants, conditions and agreements hereof shall inure to the benefit of the Banks. At any time or times, in order to comply with any legal requirement in any jurisdiction, the Pledgee may in good faith appoint one or more other Persons, either to act as co-agent or co-agents, jointly with the Pledgee, or to act as separate agent or agents on behalf of the Pledgee and the holders of the Pledge Obligations, with such power and authority as may be necessary for the effectual operation of the provisions hereof and may be specified in the instrument or appointment (which may, in the discretion of the Pledgee, include provisions for the protection of such co-agent or separate agent similar to the provisions herein).

26. SECTION HEADINGS. The section headings contained herein are for reference only and shall not in any way affect the meaning and interpretation of this Agreement.

27. PRONOUNS. Any pronoun used herein shall be construed in the person, number and gender which is appropriate in the context.

28. COUNTERPARTS. This Agreement may be executed in any number of counterparts or duplicate originals, each of which shall be deemed to be an original, but all of which together shall constitute one and the same instrument.

29. SUPPLEMENTS TO EXHIBIT A. Upon the execution and delivery after the date hereof by the Borrower of an instrument substantially in the form of Annex 1 attached hereto, Exhibit A shall be deemed to include the corporations listed therein and this Agreement shall extend to the amounts issued and outstanding capital stock set forth therein. The rights of the Pledgee in respect of the capital stock described in Exhibit A as of the date first written above shall remain in full force and effect, notwithstanding any subsequent supplement to Exhibit A under this Section 29.

[Remainder of This Page Intentionally Left Blank]

IN WITNESS WHEREOF, the parties have caused this Borrower Pledge Agreement to be executed on the date first above written.

PLEDGOR:

GRAY COMMUNICATIONS SYSTEMS, INC.

c/Frederick J. Erickson

Frederick J. Erickson
Chief Financial Officer

Address: 126 North Washington Street
Albany, Georgia 31701
Attention: William A. Fielder, III

PLEDGEE:

NATIONSBANK, N.A.

c/Melinda Bergbom

Melinda Bergbom
Senior Vice President

Address: 600 Peachtree Street, N.E.
19th Floor
Atlanta, Georgia 30308
Attention: Financial Strategies Group

ANNEX 1

SUPPLEMENT NO. __, dated as of _____, to the Amended and Restated Borrower Pledge Agreement, dated as of July 31, 1998 (the "Agreement"), by and between Gray Communications Systems, Inc., as Pledgor, and NationsBank, N.A., as Administrative Agent (all capitalized terms used herein but not otherwise defined herein shall have the meaning assigned to such terms in the Agreement as the same may be hereafter amended or supplemented from time to time).

The Pledgor is executing this Supplement in accordance with the requirements of the Loan Agreement and of the Agreement as additional consideration for any Loans previously made.

Accordingly, the Pledgor agrees as follows:

(a) In accordance with Section 29 of the Agreement, the Pledgor by signing below hereby represents and warrants that it owns issued and outstanding capital stock of the corporations listed below in the amounts listed below. Each reference to a "Company" or the "Companies" in the Agreement shall be deemed to include the corporations listed below, and the Agreement is hereby incorporated by this reference.

Corporation	Stock
-	-
-	-
-	-

(b) This Supplement shall become effective upon the execution hereof by the Pledgor and the delivery of this Supplement to the Administrative Agent.

(c) Except as expressly supplemented hereby, the Agreement shall remain in full force and effect.

(d) This Supplement shall be governed by, and shall be construed and enforced in accordance with, the laws of the State of Georgia without regard to the conflicts of law principles thereof.

IN WITNESS WHEREOF, the Pledgor has signed and delivered this Supplement to the Agreement as of the day and year first above written.

By: -----
Name: -----

Title: -----

AGREEMENT OF THE COMPANIES

In order to induce the Pledgee and the Banks to enter into the Loan Agreement, and knowing they are doing so in reliance hereupon, each Company is executing this instrument.

Each Company hereby acknowledges the directions of the Pledgor pursuant to Section 1.2 and Section 15 of the Borrower Pledge Agreement and agrees to abide thereby.

Each Company represents and warrants to the Pledgee that (i) the security interests and the pledge granted by the Pledgor to the Pledgee pursuant to the Borrower Pledge Agreement have been duly registered on the books of such Company and (ii) it has received no notice of, and has no knowledge of, any other assignment of, or Lien upon, all or any part of the Pledged Collateral.

Defined terms used in this instrument shall have the respective meanings ascribed to them in the Borrower Pledge Agreement.

IN WITNESS WHEREOF, the Companies have caused this instrument to be executed as of the date of the Borrower Pledge Agreement.

COMPANIES:

THE ALBANY HERALD PUBLISHING
COMPANY, INC.

c/Frederick J. Erickson

Frederick J. Erickson
Chief Financial Officer

GRAY KENTUCKY TELEVISION, INC.

c/Frederick J. Erickson

Frederick J. Erickson
Chief Financial Officer

GRAY REAL ESTATE & DEVELOPMENT COMPANY

c/Frederick J. Erickson

Frederick J. Erickson
Chief Financial Officer

GRAY TELEVISION MANAGEMENT, INC.

c/Frederick J. Erickson

Frederick J. Erickson
Chief Financial Officer

GRAY TRANSPORTATION COMPANY, INC.

c/Frederick J. Erickson

Frederick J. Erickson
Chief Financial Officer

PORTA-PHONE PAGING LICENSEE CORP.

c/Frederick J. Erickson

Frederick J. Erickson
Treasurer

THE ROCKDALE CITIZEN PUBLISHING
COMPANY

c/Frederick J. Erickson

Frederick J. Erickson
Chief Financial Officer

THE SOUTHWEST GEORGIA SHOPPER, INC.

c/Frederick J. Erickson

Frederick J. Erickson
Chief Financial Officer

WEAU LICENSEE CORP. (f/k/a WALB
Licensee Corp.)

c/Frederick J. Erickson

Frederick J. Erickson
Treasurer

WEAU-TV, INC. (f/k/a WALB-TV, Inc.)

c/Frederick J. Erickson

Frederick J. Erickson
Chief Financial Officer

WCTV LICENSEE CORP.

c/Frederick J. Erickson

Frederick J. Erickson
Treasurer

WJHG LICENSEE CORP.

c/Frederick J. Erickson

Frederick J. Erickson
Treasurer

WKYT LICENSEE CORP.

c/Frederick J. Erickson

Frederick J. Erickson
Treasurer

WRDW LICENSEE CORP.

c/Frederick J. Erickson

Frederick J. Erickson
Treasurer

WRDW-TV, INC.

c/Frederick J. Erickson

Frederick J. Erickson
Chief Financial Officer

WVLT LICENSEE CORP.

c/Frederick J. Erickson

Frederick J. Erickson
Treasurer

WVLT-TV, INC.

c/Frederick J. Erickson

Frederick J. Erickson
Chief Financial Officer

WYMT LICENSEE CORP.

c/Frederick J. Erickson

Frederick J. Erickson
Treasurer

KTVE-TV, INC.

c/Frederick J. Erickson

Frederick J. Erickson
Chief Financial Officer

GRAY MIDAMERICA HOLDINGS, INC.
(f/k/a Busse Broadcasting Corporation)

c/Frederick J. Erickson

Frederick J. Erickson
Chief Financial Officer

KOLN/KGIN, INC.

c/Frederick J. Erickson

Frederick J. Erickson
Chief Financial Officer

KOLN/KGIN LICENSE, INC.

c/Frederick J. Erickson

Frederick J. Erickson
Treasurer

WITN-TV, INC.

c/Frederick J. Erickson

Frederick J. Erickson
Chief Financial Officer

WITN LICENSEE CORP.

c/Frederick J. Erickson

Frederick J. Erickson
Treasurer

GRAY FLORIDA HOLDINGS, INC.

c/Frederick J. Erickson

Frederick J. Erickson
Chief Financial Officer

LYNQX COMMUNICATIONS, INC.
(f/k/a Gulf Link Communications, Inc.)

c/Frederick J. Erickson

Frederick J. Erickson
Chief Financial Officer

FIRST AMENDMENT TO AMENDED
AND RESTATED LOAN AGREEMENT

THIS FIRST AMENDMENT TO AMENDED AND RESTATED LOAN AGREEMENT (this "Amendment") dated as of the 13th day of November, 1998 (the "Amendment Date"), by and among GRAY COMMUNICATIONS SYSTEMS, INC., a Georgia corporation (the "Borrower"), the BANKS (as defined in the Loan Agreement defined below), NATIONSBANK, N.A., as syndication agent (the "Syndication Agent") and administrative agent (the "Administrative Agent"), and KEY CORPORATE CAPITAL, as documentation agent (the "Documentation Agent", and collectively with the Syndication Agent and the Administrative Agent, the "Agents"),

W I T N E S S E T H:

WHEREAS, the Borrower, the Banks and the Agents are parties to that certain Amended and Restated Loan Agreement dated as of July 31, 1998 (the "Loan Agreement"); and

WHEREAS, the Borrower has requested, and the Banks have agreed, subject to the terms hereof, to amend the Loan Agreement as more fully set forth herein;

NOW, THEREFORE, in consideration of the premises set forth above, the covenants and agreements hereinafter set forth, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree that all capitalized terms used and not defined herein shall have the meanings ascribed thereto in the Loan Agreement, and further agree as follows:

1. Amendment to Article 1. Section 1.1 of the Loan Agreement, Defined Terms, is hereby amended by deleting the definition of "Fixed Charge Coverage Ratio" in its entirety and by substituting in lieu thereof the following:

"'Fixed Charge Coverage Ratio' means, as of the end of any fiscal quarter, the ratio of (a) Operating Cash Flow for the four (4) quarter period then ended to (b) the sum of (i) all Interest Expense for such four (4) quarter period, plus, (ii) all required principal payments of Revolving Loans made pursuant to scheduled Revolving Commitment reductions pursuant to Section 2.1 during such four (4) quarter period, plus (iii) all required principal payments due on the Term Loans during such four (4) quarter period, plus (iv) all principal payments required to be made by the Borrower and its Subsidiaries on Total Debt (other than the Loans) during such four (4) quarter period, plus (v) Capital Expenditures made by the Borrower and its Subsidiaries during such four (4) quarter period, plus (vi) any federal, state or local income taxes paid by the Borrower or any of its Subsidiaries

during such four (4) quarter period, plus (vii) any purchases of common stock of the Borrower by the Borrower or any of its Subsidiaries during such four (4) quarter period."

2. Amendment to Article 8. Section 8.12 of the Loan Agreement, Financial Covenants, is hereby amended by deleting subsection (d) thereof, Operating Cash Flow to Interest Expense, in its entirety and by substituting in lieu thereof the following:

"(d) Operating Cash Flow to Interest Expense. As of any calculation date, the Borrower shall not permit the ratio of (i) Operating Cash Flow for the four (4) fiscal quarter period then ended or most recently ended, to (ii) the sum of (A) Interest Expense, plus (B) dividends made by the Borrower and its Subsidiaries in respect of the Borrower's or such Subsidiary's Capital Stock or other ownership interest for the same such four (4) quarter period (excluding dividends made in such Capital Stock or other ownership interest), to be less than 1.50 to 1.00."

3. No Other Amendment or Waiver. Notwithstanding the agreement of the Banks to the terms and provisions of this Amendment, the Borrower acknowledges and expressly agrees that this Amendment is limited to the extent expressly set forth herein and shall not constitute a modification of the Loan Agreement or any other Loan Documents or a course of dealing at variance with the terms of the Loan Agreement or any other Loan Documents (other than as expressly set forth above) so as to require further notice by the Agents or the Banks, or any of them, of its or their intent to require strict adherence to the terms of the Loan Agreement and the other Loan Documents in the future. All of the terms, conditions, provisions and covenants of the Loan Agreement and the other Loan Documents shall remain unaltered and in full force and effect except as expressly modified by this Amendment.

4. Representations and Warranties. The Borrower hereby represents and warrants in favor of each Agent and each Bank as follows:

(a) The Borrower has the corporate power and authority (i) to enter into this Amendment and (ii) to do all other acts and things as are required or contemplated hereunder to be done, observed and performed by it;

(b) This Amendment has been duly authorized and validly executed and delivered by one or more Authorized Signatories of the Borrower and constitutes the legal, valid and binding obligation of the Borrower, enforceable against it in accordance with its terms;

(c) The execution and delivery of this Amendment and the performance by

the Borrower under the Loan Agreement and the other Loan Documents to which it is a party, as

amended hereby, do not and will not require the consent or approval of any regulatory authority or governmental authority or agency having jurisdiction over the Borrower or any of its Subsidiaries which has not already been obtained, nor is in contravention of or in conflict with the articles of incorporation, by-laws or partnership agreements of the Borrower or any of its Subsidiaries, or any provision of any statute, judgment, order, indenture, instrument, agreement, or undertaking to which the Borrower or any of its Subsidiaries is a party or by which any of their respective assets or properties is or may become bound; and

(d) The representations and warranties contained in Section 5 of the Loan Agreement and contained in the other Loan Documents remain true and correct as of the date hereof, both before and after giving effect to this Amendment, except to the extent previously fulfilled in accordance with the terms of the Loan Agreement or such other Loan Document, as applicable, or to the extent relating specifically to the Agreement Date. No Default now exists or will be caused hereby.

5. Conditions Precedent. The effectiveness of this Amendment is subject to the receipt by the Administrative Agent of counterparts hereof executed by the Required Banks and the Borrower and of all documents, instruments, consents or items which the Administrative Agents shall deem appropriate in connection herewith.

6. Counterparts. This Amendment may be executed in any number of counterparts, each of which shall be deemed to be an original, but all such separate counterparts shall together constitute one and the same instrument.

7. Loan Documents. Each reference in the Loan Agreement or any other Loan Document to the term "Loan Agreement" shall hereafter mean and refer to the Loan Agreement as amended hereby and as the same may hereafter be amended.

8. Governing Law. This Amendment shall be construed in accordance with and governed by the internal laws of the State of Georgia, applicable to agreements made and to be performed in Georgia.

9. Effective Date. Upon satisfaction of the conditions precedent referred to in Section 5 hereof, this Amendment shall be effective as of the Amendment Date.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, the parties hereto have executed this Agreement or caused it to be executed under seal by their duly authorized officers, all as of the day and year first above written.

GRAY COMMUNICATIONS SYSTEMS, INC.,
a Georgia corporation

By: c/James C. Ryan

Name: James C. Ryan
Title: Vice President - Chief Financial
Officer

[CORPORATE SEAL]

Attest: c/Jackson S. Cowart, IV

Name: Jackson S. Cowart, IV
Title: Assistant Secretary

NATIONSBANK, N.A., as Administrative Agent,
Syndication Agent and a Bank

By: c/Melinda M. Bergbom

Name: Melinda M. Bergbom

Title: Senior Vice President

First Amendment to Amended
and Restated Loan Agreement
Signature Page 2

KEY CORPORATE CAPITAL INC., as Documentation
Agent and a Bank

By: c/Jason R. Weaver

Name: Jason R. Weaver
Title: Vice President

First Amendment to Amended
and Restated Loan Agreement
Signature Page 3

CIBC INC., as a Bank

By: c/Tefta Ghilaga

Name: Tefta Ghilaga

Title: Executive Director

First Amendment to Amended
and Restated Loan Agreement
Signature Page 4

THE BANK OF NEW YORK, as a Bank

By: c/Edward F. Ryan, Jr.

Name: Edward F. Ryan, Jr.

Title: Senior Vice President

First Amendment to Amended
and Restated Loan Agreement
Signature Page 5

FIRST UNION NATIONAL BANK, as a Bank

By: c/Bruce W. Loftin

Name: Bruce W. Loftin

Title: Senior Vice President

First Amendment to Amended
and Restated Loan Agreement
Signature Page 6

SUNTRUST BANK, CENTAL FLORIDA, N.A.,
as a Bank

By: c/Kimberly S. Evans

Name: Kimberly S. Evans
Title: Vice President

First Amendment to Amended
and Restated Loan Agreement
Signature Page 7

THE BANK OF NOVA SCOTIA, as a Bank

By: c/Vincent J. Fitzgerald, Jr.

Name: Vincent J. Fitzgerald, Jr.
Title: Authorized Signatory

First Amendment to Amended
and Restated Loan Agreement
Signature Page 8

TORONTO DOMINION (TEXAS), INC.,
as a Bank

By: c/Sheila M. Conley

Name: Sheila M. Conley
Title: Vice President

First Amendment to Amended
and Restated Loan Agreement
Signature Page 9

WACHOVIA BANK, N.A., as a Bank

By: c/William J. Darby

Name: William J. Darby
Title: Vice President

First Amendment to Amended
and Restated Loan Agreement
Signature Page 10

THE BANK OF TOKYO-MITSUBISHI TRUST
COMPANY, as a Bank

By: c/Julie Silver

Name: Julie Silver
Title: Assistant Vice President

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and Restated Loan Agreement
Signature Page 11

COOPERATIEVE CENTRALE
RAIFFEISEN-BOERENLEENBANK B.A.,
"RABOBANK NEDERLAND",
NEW YORK BRANCH, as a Bank

By: c/Douglas W. Zylstra

Name: Douglas W. Zylstra
Title: Vice President

By: c/W. Jeffrey Vollack

Name: W. Jeffrey Vollack
Title: Senior Credit Officer/Senior
Vice President

First Amendment to Amended
and Restated Loan Agreement
Signature Page 12

SECOND AMENDMENT TO AMENDED
AND RESTATED LOAN AGREEMENT

THIS SECOND AMENDMENT TO AMENDED AND RESTATED LOAN AGREEMENT (this "Amendment") dated as of the 3rd day of March, 1999 (the "Amendment Date"), by and among GRAY COMMUNICATIONS SYSTEMS, INC., a Georgia corporation (the "Borrower"), the BANKS (as defined in the Loan Agreement defined below), NATIONSBANK, N.A., as administrative agent (the "Administrative Agent") on behalf of the Banks.

W I T N E S S E T H:

WHEREAS, the Borrower, the Banks, the Administrative Agent, the Syndication Agent (as defined in the Loan Agreement) and the Documentation Agent (as defined in the Loan Agreement) are parties to that certain Amended and Restated Loan Agreement dated as of July 31, 1999, as amended by that certain First Amendment to Amended and Restated Loan Agreement, dated as of November 13, 1998 (as amended, modified, restated and supplemented from time to time, the "Loan Agreement"); and

WHEREAS, the Borrower has requested and, subject to the terms and conditions hereof, the Banks have agreed, to (a) amend certain provisions of the Loan Agreement and (b) consent to the Borrower's purchase of an interest in Sarkes Tarzian ("Sarkes") from one of its Affiliates, as more particularly set forth in that certain Stock Option Agreement dated as of February 28, 1999 between the Borrower and Bull Run Corporation (the "Option Agreement"); and

NOW, THEREFORE, in consideration of the premises set forth above, the covenants and agreements hereinafter set forth, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree that all capitalized terms used and not defined herein shall have the meanings ascribed thereto in the Loan Agreement, and further agree as follows:

A. Amendments, Consents and Waivers.

1. Amendment to Article 8. Section 8.12 of the Loan Agreement, Financial Covenants, is hereby amended by deleting subsections (a) and (b) thereof, Leverage Ratio and Adjusted Leverage Ratio, in their entirety and by substituting in lieu thereof the following:

"(a) Leverage Ratio. As of any calculation date, the Borrower shall not permit

the Leverage Ratio at any time during any period listed in Column A below to be greater than the ratio set forth in Column B below opposite such period:

Column A	Column B
Period:	Permitted Ratio:
January 1, 1999 through September 30, 1999	6.65:1.0
October 1, 1999, and thereafter	6.40:1.0"

"(b) Adjusted Leverage Ratio. As of any calculation date, the Borrower shall not permit the Adjusted Leverage Ratio at any time during any period listed in Column A below to be greater than the ratio set forth in Column B below opposite such period:

Column A	Column B
Period:	Permitted Ratio:
January 1, 1999, through September 30, 1999	6.60:1.0
October 1, 1999, through March 31, 2000	6.35:1.0
April 1, 2000, through December 31, 2000	5.75:1.0
January 1, 2001, through December 31, 2001	5.25:1.0
January 1, 2002, and thereafter	4.75:1.0"

2. Consent. The Borrower has informed the Banks that the Borrower intends to purchase from Bull Run Corporation ("Bull Run") a 73% economic interest and a 33.5% voting interest in Sarkes (the "Sarkes Investment") for a purchase price of \$10,000,000 plus transaction and related costs and options for the purchase of certain of the Borrower's stock. Effective upon the execution and delivery of this Consent by the Required Banks, the Banks hereby consent to the Sarkes Investment; provided, however, that on or prior to the consummation of the Sarkes Investment, the Borrower shall provide to the Administrative Agent, in form and substance satisfactory to the Administrative Agent, (i) evidence reasonably satisfactory to the Administrative Agent that the Borrower has pledged the Sarkes Investment as additional collateral securing the Obligations under the Loan Agreement, (ii) certification to the Administrative Agent and the Banks of the Borrower's compliance with Section 8.12 of the Loan Agreement and the Borrower's ability to meet its repayment obligations under the Loan Agreement through the Maturity Date after giving effect to the Sarkes Investment,

(iii) certification to the Administrative Agent and the Banks that an Event of Default does not exist under the Loan Agreement and will not be caused by the Sarkes Investment, and (iv) evidence reasonably satisfactory to the Administrative Agent of consummation of the Sarkes Investment on substantially the terms and conditions set forth in the Option Agreement.

B. Miscellaneous.

1. No Other Amendment or Waiver. Notwithstanding the agreement of the Banks to the terms and provisions of this Amendment, the Borrower acknowledges and expressly agrees that this Amendment is limited to the extent expressly set forth herein and shall not constitute a modification of the Loan Agreement or any other Loan Documents or a course of dealing at variance with the terms of the Loan Agreement or any other Loan Documents (other than as expressly set forth above) so as to require further notice by the Agents or the Banks, or any of them, of its or their intent to require strict adherence to the terms of the Loan Agreement and the other Loan Documents in the future. All of the terms, conditions, provisions and covenants of the Loan Agreement and the other Loan Documents shall remain unaltered and in full force and effect except as expressly modified by this Amendment.

2. Representations and Warranties. The Borrower hereby represents and warrants in favor of each Agent and each Bank as follows:

(a) The Borrower has the corporate power and authority (i) to enter into this Amendment and (ii) to do all other acts and things as are required or contemplated hereunder to be done, observed and performed by it;

(b) This Amendment has been duly authorized and validly executed and delivered by one or more Authorized Signatories of the Borrower and constitutes the legal, valid and binding obligation of the Borrower, enforceable against it in accordance with its terms;

(c) The execution and delivery of this Amendment and the performance by the Borrower under the Loan Agreement and the other Loan Documents to which it is a party, as amended hereby, do not and will not require the consent or approval of any regulatory authority or governmental authority or agency having jurisdiction over the Borrower or any of its Subsidiaries which has not already been obtained, nor is in contravention of or in conflict with the articles of incorporation, by-laws or partnership agreements of the Borrower or any of its Subsidiaries, or any provision of any statute, judgment, order, indenture, instrument, agreement, or undertaking to which the Borrower or any of its Subsidiaries is a party or by which any of their respective assets or properties is or may become bound; and

(d) The representations and warranties contained in Section 5 of the Loan Agreement and contained in the other Loan Documents remain true and correct as of the date

hereof, both before and after giving effect to this Amendment, except to the extent previously fulfilled in accordance with the terms of the Loan Agreement or such other Loan Document, as applicable, or to the extent relating specifically to the Agreement Date. No Default now exists or will be caused hereby.

3. Conditions Precedent. The effectiveness of this Amendment is subject to the receipt by the Administrative Agent of counterparts hereof executed by the Required Banks and the Borrower and of all documents, instruments, consents or items which the Administrative Agents shall deem appropriate in connection herewith.

4. Counterparts. This Amendment may be executed in any number of counterparts, each of which shall be deemed to be an original, but all such separate counterparts shall together constitute one and the same instrument.

5. Loan Documents. Each reference in the Loan Agreement or any other Loan Document to the term "Loan Agreement" shall hereafter mean and refer to the Loan Agreement as amended hereby and as the same may hereafter be amended.

6. Governing Law. This Amendment shall be construed in accordance with and governed by the internal laws of the State of Georgia, applicable to agreements made and to be performed in Georgia.

7. Severability. Any provision of this Consent which is prohibited or unenforceable shall be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof in that jurisdiction or affecting the validity or enforceability of such provision in any other jurisdiction.

8. Entire Agreement. This Consent, together with the documents referred to herein, constitute the entire agreement among the parties with respect to the matters addressed herein, and may not be modified except in writing.

9. Effective Date. Upon satisfaction of the conditions precedent referred to in Section 5 hereof, this Amendment shall be effective as of the Amendment Date.

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IN WITNESS WHEREOF, the parties hereto have executed this Consent or caused it to be executed by their duly authorized officers, all as of the day and year first above written.

BORROWER: GRAY COMMUNICATIONS SYSTEMS, INC., a Georgia corporation

By: c/James C. Ryan

Name: James C. Ryan

Its: Vice President - Chief Financial Officer

ADMINISTRATIVE AGENT, AND BANKS: NATIONS BANK, N.A., as Administrative Agent and Bank

By: c/Scott E. Reed

Name: Scott E. Reed

Its: Senior Vice President

KEY CORPORATE CAPITAL INC. (f/k/a KeyBank National Association), as a Bank

By: -----
Name: -----

Its: -----

CIBC INC., as a Bank

By: c/Tefta Ghilaga

Name: Tefta Ghilaga

Its: Executive Director

THE BANK OF NEW YORK, as a Bank

By: c/Cynthia L. Rogers

Name: Cynthia L. Rogers

Its: Vice President

FIRST UNION NATIONAL BANK
(f/k/a CoreStates Bank, N.A.), as a Bank

By: c/Bruce W. Loftin

Name: Bruce W. Loftin

Its: Senior Vice President

SUNTRUST BANK, CENTAL FLORIDA, N.A.,
as an Assignee

By:

Name:

Its:

By:

THE BANK OF NOVA SCOTIA, as an Assignee

By: c/P.A. Weissenberger

Name: P.A. Weissenberger

Its: Authorized Signatory

TORONTO DOMINION (TEXAS), INC.,
as an Assignee

By: c/Sheila M. Conley

Name: Sheila M. Conley

Its: Vice President

WACHOVIA BANK, N.A., as an Assignee

By: c/oWilliam J. Darby

Name: William J. Darby

Its: Vice President

THE BANK OF TOKYO-MITSUBISHI TRUST
COMPANY, as an Assignee

By: c/Julie Silver

Name: Julie Silver

Its: Assistant Vice President

COOPERATIEVE CENTRALE RAIFFEISEN-
BOERENLEENBANK B.A., "RABOBANK NEDERLAND", NEW YORK
BRANCH, as an Assignee

By: c/Ellen M. Tackling

Name: Ellen M. Tackling

Its: Vice President

By: c/Jeff Vollack

Name: Jeff Vollack

Its: Senior Vice President

CONSENT AGREEMENT

THIS CONSENT AGREEMENT (this "Consent") is entered into as of this 26th day of February, 1999 (the "Consent Date") by and among GRAY COMMUNICATIONS SYSTEMS, INC., a Georgia corporation (the "Borrower"), the BANKS (as defined in the Loan Agreement defined below) and NATIONSBANK, N.A., as administrative agent (the "Administrative Agent") on behalf of the Banks.

W I T N E S S E T H:

WHEREAS, the Borrower, the Banks, the Administrative Agent, the Syndication Agent (as defined in the Loan Agreement) and the Documentation Agent (as defined in the Loan Agreement) are parties to that certain Amended and Restated Loan Agreement dated as of July 31, 1999, as amended by that certain First Amendment to Amended and Restated Loan Agreement, dated as of November 13, 1998 (as amended, modified, restated and supplemented from time to time, the "Loan Agreement"); and

WHEREAS, the Borrower has requested and, subject to the terms and conditions hereof, the Banks have agreed, to consent to the Borrower's purchase of the assets used in connection with the publishing of The Goshen News daily newspaper business, The Goshen Extra and a commercial printing company (collectively, the "Goshen Assets") from News Printing Company, Inc., an Indiana corporation (the "Seller"), as more particularly set forth in that certain letter agreement dated as of February 1, 1999 between the Borrower and the Seller (the "Letter of Intent"); and

NOW, THEREFORE, in consideration of the premises set forth above, the covenants and agreements hereinafter set forth, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree that all capitalized terms used and not defined herein shall have the meanings ascribed thereto in the Loan Agreement, and further hereby agree as follows:

A. Consent. The Borrower has informed the Banks that the Borrower intends to purchase from the Seller the Goshen Assets (the "Goshen Asset Acquisition"). Effective upon the execution and delivery of this Consent by the Required Banks, the Banks hereby consent to the Goshen Asset Acquisition; provided, however, that on or prior to the consummation of the Goshen Asset Acquisition, the Borrower shall provide to the Administrative Agent, in form and substance satisfactory to the Administrative Agent, (i) evidence reasonably satisfactory to the Administrative Agent that the Borrower has pledged the Goshen Assets as additional collateral securing the Obligations under the Loan Agreement, (ii) certification to the Administrative Agent and the Banks of the Borrower's compliance with Section 8.12 of the Loan Agreement and the Borrower's ability to meet its

repayment obligations under the Loan Agreement through the Maturity Date after giving effect to the Goshen Asset Acquisition, (iii) certification to the Administrative Agent and the Banks that an Event of Default does not exist under the Loan Agreement and will not be caused by the Goshen Asset Acquisition, and (iv) evidence reasonably satisfactory to the Administrative Agent of consummation of the Goshen Asset Acquisition on substantially the terms and conditions set forth in the Letter of Intent

B. Miscellaneous.

1. No Other Consent or Waiver. Notwithstanding the agreement of the Banks to the terms and provisions of this Consent, the Borrower acknowledges and expressly agrees that this Consent is limited to the extent expressly set forth herein and shall not constitute a modification of the Loan Agreement or any other Loan Documents or a course of dealing at variance with the terms of the Loan Agreement or any other Loan Documents (other than as expressly set forth above) so as to require further notice by the Administrative Agent or the Banks, or any of them, of its or their intent to require strict adherence to the terms of the Loan Agreement and the other Loan Documents in the future. All of the terms, conditions, provisions and covenants of the Loan Agreement and the other Loan Documents shall remain unaltered and in full force and effect except as expressly modified by this Consent.

2. Representations and Warranties. The Borrower hereby represents and warrants in favor of the Administrative Agent and each Bank as follows:

(a) The Borrower has the power and authority (i) to enter into this Consent and (ii) to do all other acts and things as are required or contemplated hereunder to be done, observed and performed by it.

(b) This Consent has been duly authorized and validly executed and delivered by one or more Authorized Signatories of the Borrower and constitutes the legal, valid and binding obligation of the Borrower, enforceable against it in accordance with its terms;

(c) The execution and delivery of this Consent and the performance by the Borrower under the Loan Agreement and the other Loan Documents to which it is a party, as amended hereby, do not and will not require the consent or approval of any regulatory authority or governmental authority or agency having

jurisdiction over the Borrower or any of its Subsidiaries which has not already been obtained, nor is in contravention of or in conflict with the articles of incorporation, by-laws or partnership agreements of each of the Borrower or any of its Subsidiaries, or any provision of any statute, judgment, order, indenture, instrument, agreement, or undertaking to which the Borrower or any

of its Subsidiaries is a party or by which any of their respective assets or properties is or may become bound; and

(d) The representations and warranties contained in Section 5 of the Loan Agreement and contained in the other Loan Documents remain true and correct as of the date hereof, both before and after giving effect to this Consent, except to the extent previously fulfilled in accordance with the terms of the Loan Agreement or such other Loan Document, as applicable, or to the extent relating specifically to the Agreement Date. No Event of Default now exists or will be caused hereby.

3. Counterparts. This Consent may be executed in any number of counterparts, each of which shall be deemed to be an original, but all such separate counterparts shall together constitute one and the same instrument.

4. Loan Documents. Each reference in the Loan Agreement or any other Loan Document to the term "Loan Agreement" shall hereafter mean and refer to the Loan Agreement as amended hereby and as the same may hereafter be amended.

5. Governing Law. This Consent shall be construed in accordance with and governed by the internal laws of the State of Georgia, applicable to agreements made and to be performed in the State of Georgia.

6. Severability. Any provision of this Consent which is prohibited or unenforceable shall be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof in that jurisdiction or affecting the validity or enforceability of such provision in any other jurisdiction.

7. Entire Agreement This Consent, together with the documents referred to herein, constitute the entire agreement among the parties with respect to the matters addressed herein, and may not be modified except in writing.

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IN WITNESS WHEREOF, the parties hereto have executed this Consent or caused it to be executed by their duly authorized officers, all as of the day and year first above written.

BORROWER: GRAY COMMUNICATIONS SYSTEMS, INC., a Georgia corporation

By: c/James C. Ryan

Name: James C. Ryan

Its: Vice President-Chief Financial Officer

ADMINISTRATIVE AGENT, AND BANKS: NATIONSBANK, N.A., as Administrative Agent and Bank

By: c/Scott E. Reed

Name: Scott E. Reed

Its: Senior Vice President

KEY CORPORATE CAPITAL INC. (f/k/a KeyBank National Association), as a Bank

By: -----
Name: -----

Its: -----

CIBC INC., as a Bank

By: c/Tefta Ghilaga

Name: Tefta Ghilaga

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THE BANK OF NEW YORK, as a Bank

By: c/Cynthia L. Rogers

Name: Cynthia L. Rogers

Its: Vice President

FIRST UNION NATIONAL BANK
f/k/a CoreStates Bank, N.A.), as a Bank

By: c/Bruce W. Loftin

Name: Bruce W. Loftin

Its: Senior Vice President

SUNTRUST BANK, CENTAL FLORIDA, N.A.,
as an Assignee

By: _____
Name: _____

Its: _____

By: _____

THE BANK OF NOVA SCOTIA, as an Assignee

By: c/P.A. Weissenberger

Name: P.A. Weissenberger

Its: Authorized Signatory

TORONTO DOMINION (TEXAS), INC.,
as an Assignee

By: c/Sheila M. Conley

Name: Sheila M. Conley

Its: Vice President

WACHOVIA BANK, N.A., as an Assignee

By: c/William J. Darby

Name: William J. Darby

Its: Vice President

THE BANK OF TOKYO-MITSUBISHI TRUST
COMPANY, as an Assignee

By: c/Julie Silver

Name: Julie Silver

Its: Assistant Vice President

COOPERATIEVE CENTRALE RAIFFEISEN-
BOERENLEENBANK B.A., "RABOBANK
NEDERLAND", NEW YORK BRANCH, as an
Assignee

By: c/Ellen M. Tackling

Name: Ellen M. Tackling

Its: Vice President

By: c/oJeff Vollack

Name: Jeff Vollack

Its: Senior Vice President

ASSET PURCHASE AGREEMENT

BY AND AMONG

GRAY COMMUNICATIONS SYSTEMS, INC.,

GRAY COMMUNICATIONS OF INDIANA, INC.,

NEWS PRINTING COMPANY, INC.,

JANE GEMMER

AND

JOHN GEMMER

DATED AS OF FEBRUARY 28, 1999

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- Exhibit 5.13 - List of Employees
- Exhibit 6.05 - Form of Bill of Sale
- Exhibit 6.06 - Form of Opinion of Counsel to Seller and the Shareholder
- Exhibit 6.14 - Form of Non-Competition, Non-Solicitation and Confidentiality Agreement
- Exhibit 7.04 - Form of Assignment and Assumption Agreement
- Exhibit X - Assumed Contracts

ASSET PURCHASE AGREEMENT

THIS ASSET PURCHASE AGREEMENT (this "Agreement") dated as of the 28th day of February, 1999, is made and entered into by and among Gray Communications Systems, Inc., a Georgia corporation ("Gray"), Gray Communications of Indiana, Inc., a Georgia corporation ("Purchaser"), News Printing Company, Inc., an Indiana corporation ("Seller"), Jane Gemmer, an individual residing in Goshen, Indiana ("Mrs. Gemmer" or the "Shareholder") and John Gemmer, an individual residing in Goshen, Indiana ("Mr. Gemmer") (Mrs. Gemmer and Mr. Gemmer are sometimes referred to collectively as the "Gemmers").

BACKGROUND

The Shareholder owns all of the issued and outstanding common stock of Seller, which is engaged in the business of (i) printing and publishing the daily newspaper, The Goshen News, and the weekly shopper, The Goshen Extra, and (ii) commercial printing under the name News Printing Company. This Agreement sets forth the terms and conditions upon which Seller shall sell to Purchaser, and upon which Purchaser shall purchase, certain of Seller's assets, and the terms upon which Mrs. Gemmer shall sell to Purchaser, and Purchaser shall purchase from Mrs. Gemmer, the Gemmer Real Property.

Mr. Gemmer is the President of Seller, and is married to Mrs. Gemmer, the sole shareholder of Seller. Mr. Gemmer acknowledges and agrees that he will derive a substantial personal benefit from the transactions contemplated by this Agreement. Certain terms used in this Agreement are defined in Article X hereof.

AGREEMENT

In consideration of the foregoing, the mutual agreements, covenants, representations and warranties contained herein, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and subject to the terms and conditions hereinafter set forth, the parties hereto agree as follows:

ARTICLE I

SALE AND PURCHASE OF CERTAIN ASSETS

1.01 SALE AND PURCHASE OF CERTAIN ASSETS. Subject to the terms and conditions contained in this Agreement, at the Closing (i) Purchaser shall purchase from Seller, and Seller shall sell, convey, transfer, assign, and deliver to Purchaser, for the purchase price set forth in Section 1.02(a) below (the "Asset Purchase Price"), all of the Assets (which do not include the Retained Assets), free and clear of any and all Liens and (ii) Purchaser shall purchase from Mrs. Gemmer, and Mrs. Gemmer shall sell, convey, transfer, assign and deliver to Purchaser, for the purchase price set forth in Section 1.02(b) below (the "Gemmer Real Property Purchase Price"), the Gemmer Real Property, free and clear of any and all Liens (the Gemmer Real Property Purchase Price and the Asset Purchase Price sometimes are referred to collectively as the "Purchase Price").

1.02 PURCHASE PRICE; RESTRICTIVE COVENANTS.

(a) The total Asset Purchase Price for the acquisition of the Assets from Seller is \$14,850,000 plus (i) ninety-five percent (95%) of the amount of the Accounts Receivable as of the date prior to the Closing Date and (ii) the assumption of the Assumed Liabilities.

(b) The total Gemmer Real Property Purchase Price for the acquisition of the Gemmer Real Property from Mrs. Gemmer is \$350,000.

(c) Purchaser, Gray, Mrs. Gemmer and Mr. Gemmer shall enter into a Non-Competition, Non-Solicitation and Confidentiality Agreement pursuant to which Purchaser shall pay jointly to Mrs. Gemmer and Mr. Gemmer \$1,500,000 as consideration for entering into such agreement.

(d) The Asset Purchase Price shall be allocated among the Assets on a preliminary basis as set forth in Schedule 1.02(d), and after the Closing Date, Purchaser shall prepare a final allocation of the Purchase Price based upon the preliminary allocations contained in Schedule 1.02(d) and applicable Law. Purchaser and Seller shall execute and file with the IRS in a timely manner Form 8594 with respect to such final allocation. Neither Purchaser nor Seller shall file a Tax Return or take any position with any Taxing authority that is inconsistent with such final allocation.

1.03 PAYMENT OF THE PURCHASE PRICE.

(a) On the Closing Date, Purchaser shall pay the cash portion of the Asset Purchase Price to Seller by delivering (i) to Seller the sum of (A) Thirteen Million Eight Hundred Fifty Thousand Dollars (\$13,850,000) plus (B) ninety-five percent (95%) of the amount of the Accounts Receivable as of January 31, 1999, and (ii) to The Bank of New York, as escrow agent (the "Escrow Agent"), the sum of One Million Dollars (\$1,000,000), each by wire transfer of immediately available funds or in such other form and manner as may be mutually satisfactory. On the Closing Date, Purchaser shall pay the Gemmer Real Property Purchase Price by delivering to the Escrow Agent the sum of Three Hundred Fifty Thousand Dollars (\$350,000) by wire transfer of immediately available funds or in such other form and manner as may be mutually satisfactory. On the Closing Date, Purchaser shall pay \$1,500,000 for the Non-Competition, Non-Solicitation and Confidentiality Agreement to the Gemmers by delivering to the Gemmers the sum of One Million Five Hundred Thousand Dollars (\$1,500,000) by wire transfer of immediately available funds or in such other form and manner as may be mutually satisfactory.

(b) The \$1,000,000 of the Asset Purchase Price and the \$350,000 total Gemmer Real Property Purchase Price delivered to the Escrow Agent shall be held by the Escrow Agent and released pursuant to the terms of an escrow agreement substantially in the form of Exhibit 1.03(b) (the "Escrow Agreement").

(c) Each of the Asset Purchase Price and the Gemmer Real Property Purchase Price shall be paid net of any necessary adjustment pursuant to Section 1.04, Section 5.11 and any other provision of this Agreement requiring payment to or for the benefit of any of the parties hereto at Closing.

1.04 PRORATIONS AND CERTAIN PAYMENTS. The following prorations relating to the Assets and to the Gemmer Real Property will be made as of the close of business on February 28, 1999, with Seller

(or in the case of the Gemmer Real Property, Mrs. Gemmer), liable to the extent such items relate to any time period prior to the close of business on February 28, 1999 and Purchaser liable to the extent such items relate to periods on or after the close of business on February 28, 1999:

- (i) personal property, real estate, occupancy and other similar Taxes;
- (ii) the amount of sewer rents and charges for water, telephone, electricity and other utilities and fuel;
- (iii) the amount of prepaid circulation revenue; and
- (iv) all other items that shall be paid by Purchaser or otherwise affect the Business, the Assets or the Gemmer Real Property and that relate, in whole or in part, to periods prior to the close of business on February 28, 1999 (other than the Assumed Liabilities).

The net amount of all such prorations will be settled and paid on the Closing Date as a net against the Asset Purchase Price and the Gemmer Real Property Purchase Price, as appropriate, pursuant to Section 1.03(c). In the event that the amount of any of the items to be prorated pursuant to this Section 1.04 is not known by Seller (or in the case of the Gemmer Real Property, Mrs. Gemmer), and Purchaser at the Closing, the proration shall be made based upon the amount of the most recent cost of such item to Seller (or in the case of the Gemmer Real Property, Mrs. Gemmer). After Closing, Purchaser and Seller (or in the case of the Gemmer Real Property, Mrs. Gemmer), each shall provide to the other, within five (5) business days after receipt, each Third Party invoice relating to any item so estimated. Within ten (10) business days thereafter, Purchaser and Seller (or in the case of the Gemmer Real Property, Mrs. Gemmer), each shall make any payments to the other that are necessary to compensate for any difference between the proration made at the Closing and the correct proration based on the Third Party invoice.

1.05 PURCHASE PRICE ADJUSTMENT. Within thirty (30) days after the Closing Date, Purchaser shall prepare and deliver to Seller a statement of the amount of the Accounts Receivable as of February 28, 1999 (the "Closing Receivables"). The Asset Purchase Price shall be increased by 95% of any amount by which the Closing Receivables exceed the Accounts Receivable as of January 31, 1999 (the "January Receivables"). The Asset Purchase Price shall be decreased by 95% of any amount by which the January Receivables exceed the Closing Receivables. Any increase in the Asset Purchase Price shall be paid by Purchaser to Seller and any decrease in the Asset Purchase Price shall be paid by Seller to Purchaser. The payment required by this Section 1.05 shall be made by wire transfer of immediately available funds within ten (10) days after delivery of the statement of the Closing Receivables.

1.06 CLOSING. The Closing shall take place at the offices of McGladrey & Pullen, LLP, 202 N. Main, Goshen, Indiana 46526, on the Closing Date. Title to the Assets shall pass from Seller (and in the case of the Gemmer Real Property, from Mrs. Gemmer), to Purchaser upon the Closing to be effective as of the close of business on February 28, 1999.

1.07 DELIVERIES. All deliveries, payments and other transactions and documents relating to the Closing (i) shall be interdependent and none shall be effective unless and until all are effective (except to the extent that the party entitled to the benefit thereof has waived satisfaction or performance thereof as a condition precedent to Closing) and (ii) shall be deemed to be consummated simultaneously.

ARTICLE II
ASSUMPTION OF LIABILITIES AND CONTRACTUAL OBLIGATIONS

2.01 GENERAL. Except as otherwise expressly provided in Section 2.02, Purchaser is not assuming any Liability or any contractual or other obligation of Seller or, with respect to the Gemmer Real Property, Mrs. Gemmer, (including without limitation any of the Retained Liabilities); and the Assets and the Gemmer Real Property are being sold to Purchaser free and clear of all Liens and Liabilities. Seller will pay all Taxes imposed on it and all Taxes payable by reason of the sale by Seller to Purchaser of the Assets pursuant to the terms of this Agreement. Mrs. Gemmer will pay all Taxes imposed on her and all Taxes payable by reason of the sale by Mrs. Gemmer to Purchaser of the Gemmer Real Property pursuant to the terms of this Agreement.

2.02 CERTAIN OBLIGATIONS.

(a) Purchaser hereby assumes the Assumed Liabilities.

(b) Nothing contained in this Agreement shall require Purchaser to pay, perform or discharge any of the Assumed Liabilities so long as Purchaser shall in good faith contest or cause to be contested the amount or validity thereof or shall in good faith assert any defense or offset thereto, and Seller, Mr. Gemmer and the Shareholder shall provide reasonable assistance to Purchaser in so contesting and defending such claims.

(c) Nothing contained in this Article II or in any instrument of assumption executed by Purchaser in connection with this Agreement shall be deemed to release or relieve Seller or the Shareholder from their respective representations, warranties, covenants and agreements contained in this Agreement or any of the other agreements executed in connection with this Agreement, including, without limitation, the obligations of Seller, the Shareholder and Mr. Gemmer to indemnify Purchaser in accordance with the provisions of Article VIII. Further, Seller (and, in the case of Retained Liabilities with respect to the Gemmer Real Property, Mrs. Gemmer) shall pay, satisfy and perform all of the Retained Liabilities, and no disclosures made or exceptions noted with respect to the representations, warranties, covenants and agreements of Seller, the Shareholder or Mr. Gemmer contained in this Agreement or any of the Other Agreements shall affect Seller's (and, in the case of Retained Liabilities with respect to the Gemmer Real Property, Mrs. Gemmer's), obligation to pay, satisfy and perform all of the Retained Liabilities.

2.03. NO INTENTION TO BENEFIT THIRD PARTIES. This Agreement is not intended to, and shall not, benefit any person or entity other than Seller, Mr. Gemmer, the Shareholder and Purchaser or create any Third Party beneficiary right in any person.

ARTICLE III
REPRESENTATIONS AND WARRANTIES OF THE SHAREHOLDER, MR. GEMMER AND SELLER

The Shareholder, Mr. Gemmer and Seller, jointly and severally, hereby represent and warrant to Purchaser as follows:

3.01 CAPACITY AND VALIDITY. The Shareholder is the owner of all right, title and interest (legal and beneficial) in and to that number of shares of common stock of Seller listed opposite the name of such Shareholder in Schedule 3.01. Each of the Shareholder and Mr. Gemmer has the full power and capacity necessary to enter into and perform her or his obligations under this Agreement and the Other Agreements to which she or he is a party and to consummate the transactions contemplated hereby and thereby. Seller has the corporate power and authority necessary to enter into and perform its obligations under this Agreement and the Other Agreements to which it is a party and to consummate the transactions contemplated hereby and thereby. The execution, delivery and performance of this Agreement and such Other Agreements have been approved by all necessary action of the Board of Directors and the shareholders of Seller. This Agreement and the Other Agreements to which the Shareholder, Mr. Gemmer or Seller is a party have been duly executed and delivered by the Shareholder, Mr. Gemmer and by duly authorized officers of Seller, and each such agreement constitutes, or when executed, will constitute, a legal, valid and binding obligation of the Shareholder, Mr. Gemmer and Seller, enforceable against the Shareholder, Mr. Gemmer and Seller in accordance with their respective terms, except as enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium or other Laws affecting creditors' rights generally.

3.02 ORGANIZATION. Seller is a corporation duly organized, validly existing and in good standing under the laws of the State of Indiana and has full corporate power and authority to own, lease and operate its assets and to carry on its Business. Complete and correct copies of the Articles of Incorporation, and all amendments thereto, (certified by the Secretary of State of the State of Indiana) and By-Laws of Seller, and all amendments thereto (certified by the Secretary of Seller) are attached hereto as part of Schedule 3.02. Seller is duly qualified or licensed to transact business as a foreign corporation in good standing in the jurisdictions listed in Schedule 3.02(a), and the character of the Assets and the Gemmer Real Property or the nature of the Business do not require such qualification or licensing in any other jurisdiction, in which the failure to be duly qualified or licensed could have a Material Adverse Effect on Seller. Copies of all records of the proceedings of incorporators, shareholders and Board of Directors of Seller, including those which are set forth in Seller's minute books ("Minute Books"), and the stock record books of Seller ("Stock Record Books") have been made available to Purchaser for review, are correct and complete and accurately reflect all proceedings of Seller's incorporators, shareholders and Board of Directors and all committees thereof and the stock ownership in Seller.

3.03 NO CONFLICT. Except as disclosed in Schedule 3.03, neither the execution, delivery and performance of this Agreement or the Other Agreements to which she, he or it is a party by the Shareholder, Mr. Gemmer or Seller nor the consummation by the Shareholder, Mr. Gemmer or Seller of the transactions contemplated hereby or thereby will (i) conflict with or result in a violation, contravention or breach of any of the terms, conditions or provisions of the Articles of Incorporation, as amended, or the By-Laws, as amended, of Seller, (ii) result in a Default under or require the consent or approval of any party to any Contract of Seller, Mr. Gemmer or the Shareholder, (iii) result in the violation of any Law or Order, or (iv) result in the creation or imposition of any Lien upon any of the Assets or any portion of the Gemmer Real Property.

3.04 SUBSIDIARIES. Seller has not in the past had, and does not currently have, any Subsidiaries. Except as set forth on Schedule 3.04, Seller has not in the past owned, and does not currently own, directly or indirectly, any capital stock or other equity, ownership, proprietary or voting interest in any Person.

3.05 FINANCIAL STATEMENTS; ABSENCE OF UNDISCLOSED LIABILITIES.

(a) The Financial Statements, correct and complete copies of which are included in Schedule 3.05, (i) are in accordance with the books and records of Seller which are correct and complete and which have been maintained in accordance with good business practices; (ii) present fairly the financial position of Seller as of the dates indicated and the results of its operations and its cash flows for the periods then ended; (iii) have been prepared in accordance with GAAP; and (iv) reflect reserves in conformity with GAAP that are adequate for all known Liabilities and reasonably anticipated Losses.

(b) Seller has no Undisclosed Liabilities or any basis for or, to the Knowledge of Seller, Mr. Gemmer or the Shareholder, any threat of an assertion against Seller, the Business, the Gemmer Real Property or Seller's assets of any Undisclosed Liability, except for Liabilities incurred since the Balance Sheet Date in the ordinary course of business, none of which are Material, individually or in the aggregate.

3.06 ABSENCE OF CHANGES. Since the Balance Sheet Date, (i) the Business has been carried on only in the ordinary course consistent with past practice, (ii) there has been no Material Adverse Change, and there has been no event or circumstance which is reasonably anticipated to result in a Material Adverse Change with respect to Seller, the Business, the Gemmer Real Property or the Assets, and (iii) Seller has not made any change in any method of accounting or accounting practice.

3.07 TAX MATTERS. Seller (and with respect to the Gemmer Real Property, Mrs. Gemmer) has timely filed with the appropriate Governmental Authorities all required Tax Returns in all jurisdictions in which Tax Returns are required to be filed, and such Tax Returns are correct and complete. Seller (and with respect to the Gemmer Real Property, Mrs. Gemmer), is not the beneficiary of any extension of time within which to file any Tax Return. All Taxes (whether or not shown on any Tax Return) for all periods ending on or before the Balance Sheet Date, have been fully paid or appropriate deposits or adequate accruals have been made therefor on the Balance Sheet. No basis exists for any additional assessment of any Taxes.

3.08 TITLE TO ASSETS; ENCUMBRANCES; CONDITION.

(a) Seller has good, valid and marketable title to all of the Assets free and clear of any and all Liens.

(b) Each of the improvements on the Gemmer Real Property and on the Goshen Real Property and each item of Personal Property is in good condition and repair, reasonable wear and tear excepted, and is usable in the ordinary course of business consistent with past practices. Each improvement on the Gemmer Real Property and on the Goshen Real Property and each item of Personal Property is adequate for its present and intended uses and operation and Seller has no intention to use or operate any such improvement or any item of Personal Property other than as presently used or operated. The Assets (including Seller's interest in all leased assets) together with the Gemmer Real Property (i) include all assets required to operate the Business; (ii) constitute all of the assets held for use or used in connection with the Business; and (iii) are adequate to conduct the Business as currently conducted.

3.09 REAL PROPERTY.

(a) Schedule 3.09 contains a correct and complete description (including, without limitation, a legal description) of the Goshen Real Property and the Gemmer Real Property (for purposes of this Agreement, the Goshen Real Property and the Gemmer Real Property are sometimes collectively referred to as the "Real Property"). Any and all rights and easements for public vehicular ingress thereto and egress therefrom (including curb cut rights from all adjacent public streets) necessary for the Business as presently conducted by Seller are available to the Real Property. To the Knowledge of Seller, Mr. Gemmer or the Shareholder, no facts or circumstances exist which do, or potentially may, adversely affect any of the ordinary rights of access to and from the Real Property, from and to the existing public highways and roads, and there is no pending or threatened denial, revocation, modification or restriction of such access.

(b) All public and private utilities required for the operation of the Real Property and the Business either enter the Real Property through adjoining public streets or, if they enter through adjoining private land, do so in accordance with valid recorded public easements or private easements which will inure to the benefit of Purchaser and all of such public and private utilities are installed and operating and all installation and connection charges have been paid in full.

(c) To the Knowledge of Seller, Mr. Gemmer or the Shareholder, no zoning or similar land use restrictions are presently in effect or proposed by any Governmental Authority that would impair the operation of the Business as presently conducted by Seller or that would impair the use, occupancy and enjoyment of any of the Real Property. All of the Real Property is in compliance with all applicable zoning or similar land use restrictions of all Governmental Authorities having jurisdiction thereof and with all recorded restrictions, covenants and conditions affecting any of the Real Property and Seller or Mrs. Gemmer has performed all affirmative covenants relating to the Real Property and required to be performed by Seller or Mrs. Gemmer. Neither Seller nor Mrs. Gemmer has received any notice from any Governmental Authority or Third Party with regard to encroachments on or off the Real Property, violations of building codes, zoning, subdivision or similar Laws or other material defects in the good, valid, marketable and insurable fee simple title of said Real Property. None of the Real Property or the current uses thereof constitutes a nonconforming use or a "grandfathered" use under any applicable zoning or building codes.

(d) As of the Closing Date, there will be no Contracts affecting the Real Property or any part thereof, and there will be no Persons in possession of, or with rights to possess, the Real Property or any part thereof other than Seller. There are no leases or other occupancy agreements, written or oral, in effect affecting the Real Property or any part thereof.

(e) To the Knowledge of Seller, Mr. Gemmer or the Shareholder, no claim or right of adverse possession by any Third Party has been claimed or threatened with respect to the Real Property and none of such property is subject to any Order for its sale, condemnation, expropriation or taking (by eminent domain or otherwise) by any Governmental Authority nor has any such sale, condemnation, expropriation or taking been proposed or threatened.

(f) Mrs. Gemmer has good, valid, marketable and insurable fee simple title to all of the Gemmer Real Property free and clear of any and all Liens. Seller has good, valid, marketable and insurable fee simple title to all of the Goshen Real Property free and clear of any and all Liens.

(g) All improvements are located entirely on the Gemmer Real Property and the Goshen Real Property, and there are no matters that would be disclosed by current surveys of the Gemmer Real Property and the Goshen Real Property that could have an adverse effect on the Business as currently conducted.

3.10 PERSONAL PROPERTY. Schedule 3.10 contains a correct and complete list of each item of Personal Property, other than Inventory (excluding office furniture, equipment, supplies and miscellaneous items of personal property with an aggregate book value of less than \$10,000). Schedule 3.18(a)(iii) contains a correct and complete description of all leased Personal Property. Each Contract of Seller relating to such leased Personal Property is fully and accurately identified and described on such Schedule 3.18(a)(iii) (including, without limitation, duration, significant terms, and details of purchase options, if any).

3.11 INTELLECTUAL PROPERTY. Schedule 3.11 contains a correct and complete list of all of the Intellectual Property of Seller used in connection with the Business, including all license agreements relating thereto, and indicates which of such Intellectual Property is owned and which is licensed by Seller as licensee.

(a) Neither Seller nor any of its predecessors or Affiliates (or any goods or services sold by any of them) has violated, infringed upon or unlawfully or wrongfully used or disclosed the Intellectual Property of any Third Party and none of the Intellectual Property of Seller or any related rights or any customer lists, subscriber lists, advertiser lists or mailing lists, as used in the Business or in the other businesses now or heretofore conducted by Seller, infringes upon or otherwise violates the rights of any Third Party, and no Person has asserted a claim of such infringement or misuse. Seller has taken all reasonable measures to enforce, maintain and protect its interests and, to the extent applicable, the rights of Third Parties, in and to the Intellectual Property. Seller has, and upon consummation of the transactions contemplated by this Agreement, Purchaser will have, all right, title and interest in or to, or the license to use in the Business, the Intellectual Property identified on Schedule 3.11. The consummation of the transactions contemplated by this Agreement will not alter or impair any Intellectual Property rights of Seller. Seller is not obligated to make, nor has Seller incurred any Liability to make, any payments for royalties, fees or otherwise to any Person in connection with any of Seller's Intellectual Property used in the Business. All patents, trademarks, trade names, service marks, assumed names, and copyrights and all registrations thereof included in or related to the Intellectual Property of Seller are valid, subsisting and in full force and effect. Neither Seller, Mr. Gemmer nor the Shareholder has any Knowledge of any infringement of the Intellectual Property of Seller, and there are no pending infringement actions against another for infringement of the Intellectual Property of Seller or theft of Seller's trade secrets.

(b) No present or former officer, director, partner, employee or independent contractor of Seller owns or has any proprietary, financial or other interest, direct or indirect, in any of the Intellectual Property of Seller, including without limitation any trade secrets, know-how, inventions, designs, formulae and processes relating to equipment or machinery used in connection with the Business. No officer, director, partner or employee of Seller has entered into any Contract, other than with Seller, that requires such officer, director, partner, employee or independent contractor to assign any interest to inventions or other Intellectual Property or keep confidential any trade secrets, proprietary data, customer lists or other business information or that restricts or prohibits such officer, director, partner, employee or independent contractor from engaging in competitive activities with or the solicitation of customers from any competitor of Seller.

3.12 BARTER AND TRADE AGREEMENTS. Schedule 3.12 is a list or brief description of any "barter," "trade" or other Contracts which relate to the Business of Seller and that require performance by Seller of any obligation for a period extending beyond the Closing Date. Schedule 3.12 includes an estimate of the positive or negative trade balances associated with each such "barter," "trade" and other Contract.

3.13 CIRCULATION. Average net paid daily circulation of The Goshen News for the twelve (12) month period prior to the Closing Date has been not less than 17,000, as calculated on a basis consistent with that used by the Audit Bureau of Circulation.

3.14 INVENTORIES. Schedule 3.14 contains a complete and correct list of all Inventory of Seller and the cost of each item of Inventory as of January 31, 1999 with respect to newsprint and as of December 31, 1998 with respect to supplies. All items of Inventory of Seller consist of items of a quality, quantity and condition usable and salable in the ordinary course of the Business without discount or reduction and conform to generally accepted standards in the industry of which Seller is a part. The value of each item of Inventory reflected on the Balance Sheet, was, in each instance, valued at a reasonable amount in accordance with GAAP and based on the ordinary course of the Business consistent with the historical valuation policy of Seller and is not subject to any write-down or write-off in excess of the Inventory reserves stated in the Balance Sheet. Purchase Contracts for raw materials, supplies, parts and services are not at prices in excess of the prevailing market prices at the time of the purchase. There are no pending or threatened claims by Seller seeking return of, credit for, or reimbursement for any property, by reason of alleged defects, or otherwise.

3.15 BONDS, LETTERS OF CREDIT AND GUARANTEES. Neither Seller, Mr. Gemmer, the Shareholder nor any other Related Person has issued any bonds (whether denominated bid, litigation, performance, fidelity, DD&D, or otherwise) in excess of \$1,000 individually or \$5,000 in the aggregate, letters of credit, and guarantees for the benefit of Seller or relating to Seller, the Gemmer Real Property or the Business, and no such bond, letter of credit or guaranty is in force or outstanding.

3.16 COMPLIANCE WITH LAW.

(a) Each of Seller and, with respect to the Gemmer Real Property, Mrs. Gemmer has complied with and is in compliance with all Laws, Licenses and Orders applicable to, required of or binding on Seller, Mrs. Gemmer (with respect to the Gemmer Real Property), the Assets, the Gemmer Real Property or the Business, and there is no basis for any claim of current or past non-compliance with any such Law, License or Order. The transfer of the Assets and the Gemmer Real Property to Purchaser pursuant to this Agreement will not violate any Laws or Orders applicable to or binding on Seller, the Assets, the Gemmer Real Property, the Shareholder or the Business. No notices from any Governmental Authority with respect to any failure or alleged failure of Seller, Mrs. Gemmer (with respect to the Gemmer Real Property), the Assets, the Gemmer Real Property or the Business to comply with any Law, License or Order have been received by Seller, Mr. Gemmer or the Shareholder, nor to the Knowledge of Seller, Mr. Gemmer or the Shareholder are any such notices proposed or threatened. Seller together with Mrs. Gemmer, her spouse and her minor children and any other businesses of which any of the foregoing own 50% or more, have, in the aggregate, neither sales nor total assets of \$10,000,000 or more.

(b) Seller holds all Licenses necessary for or used in the operations of the Business, and each such License is in full force and effect. Schedule 3.16 contains a true and complete list of all

such Licenses (showing, in each case, the expiration date). No application, action or proceeding is pending for the renewal or modification of any of such Licenses, and no application, action or proceeding is pending or, to the Knowledge of Seller, Mr. Gemmer or the Shareholder, threatened that may result in the denial of the application for renewal, the revocation, modification, nonrenewal or suspension of any of such Licenses, the issuance of a cease-and-desist order, or the imposition of any administrative or judicial sanction with respect to the Business that may Materially and adversely affect the rights of Purchaser or Seller under any such License. All returns, reports and statements required to be filed by Seller with any Governmental Authority relating to the Business have been filed and complied with and are complete and correct as filed.

(c) There are no capital expenditures that Seller, Mr. Gemmer or Mrs. Gemmer anticipates will be required to be made in connection with Seller's Assets, the Gemmer Real Property or the Business as now conducted in order to comply with any Law applicable to Seller, any of its Assets, the Gemmer Real Property or the Business as now conducted.

3.17 BENEFIT PLANS.

(a) Neither Seller nor any member of a group of trades or businesses under common control ("ERISA Affiliate") (as defined in Sections 4001(a)(14) or 4001(b)(1) of the Employee Retirement Income Security Act of 1974, as amended ("ERISA")) with Seller have at any time sponsored, contributed to, or been obligated under Title I or IV of ERISA to contribute to a "defined benefit plan" as defined in ERISA Section 3(35) other than The News Printing Company, Inc. Retirement Plan (the "Pension Plan"), or to any "multiemployer plan" as defined in ERISA Section 3(37). Neither Seller nor any ERISA Affiliate of Seller has at any time sponsored, contributed to, or been obligated to contribute to any Employee Benefit Plan which is or has been intended to be qualified under Section 401(a) of the Internal Revenue Code other than the Pension Plan.

(b) Schedule 3.17 lists every Employee Benefit Plan that affects or is available to employees performing duties in connection with the Business.

(c) Seller has delivered to Purchaser (i) copies of the Pension Plan including any amendments, and the trust thereto; (ii) all determination letters, rulings, opinion letters, information letters or advisory opinions issued by the IRS, the Department of Labor or the Pension Benefit Guaranty Corporation after December 31, 1988; (iii) annual reports or returns, audited or unaudited financial statements, actuarial valuations and reports, and summary annual reports prepared for the Pension Plan with respect to the most recent three plan years; (iv) the most recent summary plan description and any material modifications thereto; and (v) such other information and documents as Purchaser has requested.

(d) The Pension Plan has been maintained in compliance with the applicable terms of ERISA, the Code and any other applicable Law. The Pension Plan has been administered in accordance with its written terms except to the extent inconsistent with applicable Law. No oral or written representation or communication with respect to any aspect of the Pension Plan has been made to employees of the Seller prior to the Closing which is not in accordance with the written or otherwise preexisting terms and provisions of such Pension Plan. There are no unresolved claims or disputes under the terms of, or in connection with, the Pension Plan other than claims for benefits which are payable in the ordinary course of business, and no action, proceeding, prosecution, inquiry, hearing or investigation has been commenced with respect to the Pension Plan. The Pension Plan has received a determination

letter from the IRS with respect to currently applicable tax laws, and the Seller is not aware of any circumstances which could result in revocation of any such favorable determination letter.

(e) Based on the actuarial report dated January 1, 1998, the Pension Plan did not have, and to the Knowledge of Seller, the Shareholder or John Gemmer, the Pension Plan does not have, any "unfunded current liability," as that term is defined in Section 302(d)(8)(A) of ERISA, and the fair market value of the assets of such plan exceeds the plan's "benefit liabilities," as that term is defined in Section 4001(a)(16) of ERISA, when determined under actuarial factors that would apply if the plan terminated in accordance with all applicable legal requirements. Since the date of the most recent actuarial valuation, there has been (i) no material change in the financial position of the Pension Plan, (ii) no change in the actuarial assumptions with respect to the Pension Plan, and (iii) no increase in benefits under the Pension Plan as a result of plan amendments or changes in applicable Law. The Pension Plan does not have an "accumulated funding deficiency" within the meaning of Section 412 of the Code or Section 302 of ERISA. The Seller has not provided, nor is it required to provide, security to the Pension Plan pursuant to Section 401(a)(29) of the Code.

(f) Within the six-year period preceding the Closing, no Liability under Subtitle C or D of Title IV of ERISA has been or is expected to be incurred by the Seller with respect to the Pension Plan. No notice of a "reportable event," within the meaning of Section 4043 of ERISA for which the 30-day requirement has not been waived, has been required to be filed for the Pension Plan.

(g) There are no restrictions on the rights of the Seller to amend or terminate the Pension Plan without incurring any Liability thereunder.

(h) All contributions or premium payments due or accrued with respect to the Pension Plan through the Closing have been paid by the Seller to or on behalf of each such plan.

(i) All Employee Benefit Plans have been maintained in compliance with all applicable Laws in accordance with the terms of the governing Employee Benefit Plan documents. All Employee Benefit Plans have been administered in compliance with requirements necessary to secure the intended tax consequences of such Plans.

3.18 CONTRACTS.

(a) Description.

(i) Gemmer Real Property. Schedule 3.18(a)(i) is a list and brief description of all Contracts affecting or relating to the Gemmer Real Property, including, without limitation, Contracts evidencing Liens.

(ii) Goshen Real Property. Schedule 3.18(a)(ii) is a list and brief description of all Contracts affecting or relating to the Goshen Real Property, including without limitation, Contracts evidencing Liens.

(iii) Personal Property. Schedule 3.18(a)(iii) is a list and brief description of all Contracts affecting or relating to the Personal Property, including, without limitation, Contracts evidencing Liens.

(iv) Purchase Orders -- Non-Capital Assets. Schedule 3.18(a)(iv) is a list of all outstanding Contracts of Seller for the acquisition of goods, assets or services (other than purchase orders or other commitments for the acquisition of capital assets and other than purchase orders and other commitments that do not exceed \$10,000 each), all of which were executed in the ordinary course of business consistent with past practice by Seller.

(v) Purchase Orders -- Capital Assets. Schedule 3.18(a)(v) is a list of all outstanding Contracts of Seller for the acquisition of capital assets that were executed in the ordinary course of business consistent with past practice of Seller (other than purchase orders and other commitments that do not exceed \$10,000 each).

(vi) Sales. Schedule 3.18(a)(vi) is a brief description of all Contracts that relate to the sale of products (other than newspapers) or printing services by Seller. Except as set forth on Schedule 3.18(a)(vi), all Contracts of Seller for advertising are for one year or less and are consistent with the current rate schedule of Seller or the rate schedule of Seller in effect at the time the Contract was entered into, which in no event is more than one year prior to the Closing Date.

(vii) Employment, Other Affiliate Contracts. Schedule 3.18(a)(vii) contains a list and brief description of all Contracts of Seller with any trade union, employee, officer, agent, consultant, sales representative, distributor, dealer or Affiliate of Seller. Schedule 3.18(a)(vii) contains a correct and complete copy of the form contract used by Seller to engage each of its independent contractors and no independent contractor has been engaged by Seller other than on terms set forth on such form contract.

(viii) Powers of Attorney. Schedule 3.18(a)(viii) is a list and brief description of all powers of attorney continuing in effect, whether limited or general, given to any Person by Seller.

(ix) Intellectual Property Contracts. Schedule 3.18(a)(ix) is a list of all Contracts of Seller that relate to the Business relating to the Intellectual Property, including, without limitation, Contracts evidencing Liens.

(x) Other Contracts. Schedule 3.18(a)(x) is a list and brief description of any other Contracts of Seller that relate to the Business and that: (A) provide for monthly payments in excess of \$1000, (B) provide for payments, or under which payments actually made were, by or to Seller in any calendar year or fiscal year, in excess of \$10,000, (C) require performance by Seller of any obligation for a period of time extending beyond six (6) months from the Closing Date or that is not terminable by Seller without penalty or Liability upon sixty (60) days or less notice, (D) evidence, create, guarantee or service indebtedness of either Seller, (E) establish or provide for any joint venture, partnership or similar arrangement involving Seller or the Shareholder, or (F) guarantee or endorse the Liabilities of any other Person.

The lists or descriptions in all Schedules referred to above are correct and complete as of the date unless otherwise noted thereon.

(b) Copies. Correct and complete descriptions of all Contracts referred to in Section 3.18(a) have been delivered to Purchaser on or before the Closing Date.

(c) No Default. None of Seller, Mr. Gemmer, Mrs. Gemmer or any other party is in Default under any of the Contracts referred to in Section 3.18(a), and there is no basis for any claim of Default under any of the foregoing. Each of the Contracts referred to in this Section 3.18 (i) is in full force and effect, (ii) constitutes a valid, legal and binding agreement of the parties thereto, enforceable in accordance with its terms except for bankruptcy, insolvency, reorganization, moratorium or other Laws affecting creditors' rights generally and as otherwise set forth in Schedule 3.18(c), and (iii) was executed in the ordinary course of business consistent with past practice by Seller and, with respect to the Gemmer Real Property, Mrs. Gemmer. Neither Seller nor, with respect to the Gemmer Real Property, Mrs. Gemmer is a party to or bound by any Contract or Contracts that, either separately or in the aggregate has or will have a Material Adverse Effect with respect to Seller, the Business, the Gemmer Real Property or the Assets. The continuation, validity and effectiveness of each of the Contracts referred to in this Section 3.18 will not be affected in any way by the consummation of the transactions contemplated by this Agreement. None of Seller, Mr. Gemmer or the Shareholder has any Knowledge of any party to any Contract with Seller or, with respect to the Gemmer Real Property, Mrs. Gemmer, that intends to cease to perform under such Contract or to withhold any payment thereunder.

3.19 LABOR MATTERS. Schedule 3.19 contains a correct and complete list of all employees of Seller. Schedule 3.19 contains a complete and accurate schedule of the direct compensation (including wages, salaries and actual or anticipated bonuses) plus a description of other annual benefits, paid or provided in the fiscal year ended December 31, 1998 and in the current fiscal year, to all of the officers, directors and employees of Seller. To the Knowledge of Seller, Mr. Gemmer or the Shareholder, each independent contractor meets the standards under all Laws (including without limitation IRS Regulations and federal and state labor regulations) as independent contractors and no such Person is an employee of Seller under any applicable Law; provided, however, for purposes of the indemnification under Section 8.02(a), the foregoing sentence shall be deemed to not be qualified to the Knowledge of Seller, Mr. Gemmer or the Shareholder. Schedule 3.19 contains complete and accurate copies of each Form 1099 for the year ended December 31, 1998 for each independent contractor engaged by Seller in such year. The current compensation of each such independent contractor currently engaged by Seller is not materially different from that set forth on the Forms 1099 included in Schedule 3.19. With respect to independent contractors initially engaged by Seller after December 31, 1998, the compensation is not different in any material respect from the average compensation indicated on the Forms 1099 included in Schedule 3.19. No other compensation or benefit was paid or provided to the independent contractors of Seller in the year ended December 31, 1998 or is being paid or provided in 1999. The employment of each employee and the Contract for each independent contractor of Seller is terminable at will by Seller without any penalty or severance obligation incurred by Seller. Except as set forth on Schedule 3.19, Seller will not owe any amounts to any of its employees or independent contractors as of the Closing Date, including, without limitation, any amounts incurred for wages, bonuses, vacation pay, sick leave or any severance obligations. Except as and to the extent set forth in Schedule 3.19, (i) Seller is not a party to any union agreement or collective bargaining agreement or work rules or practices agreed to with any labor organization or employee association applicable to any employees of Seller, and to the Knowledge of Seller, the Shareholder or Mr. Gemmer, no attempt to organize any of the employees of the Business has been made, proposed or threatened, (ii) Seller has never had any Equal Employment Opportunity Commission or state fair employment practice agency charges or other claims of employment discrimination, harassment or wrongful discharge made against it or any of its employees, (iii) no state or federal Wage and Hour Department investigations have ever been made of Seller and no claims or charges relating to wage and hour issues have been filed or, to the Knowledge of Seller, Mr. Gemmer or the Shareholder, threatened, (iv) no labor strike, dispute, slowdown, stoppage or lockout is pending or

threatened against or affecting Seller, the Assets or the Business, and during the past five (5) years there has not been any such action, (v) no unfair labor practice charge or complaint against Seller is pending or threatened before the National Labor Relations Board or any similar Governmental Authority, (vi) no Office of Federal Contract Compliance Programs compliance review or investigation or other United States Department of Labor or state department of labor compliance review or investigation has been made of Seller, and Seller has received no notice of any such compliance review or investigation, (vii) Seller is not bound by any consent decree, Order or settlement agreement relating to work place conditions, policies or practices, employment decisions or relations with employees, independent contractors or applicants for employment, (viii) no Occupational Safety and Health Administration investigations have been made of Seller with respect to the Business in the past five (5) years, and (ix) Seller has received no notice that any of the officers, employees, consultants, agents, independent contractors, or other Persons performing services for the Business, will terminate or contemplates terminating his or her employment or independent contractor relationship currently or at any time within sixty (60) days after the Closing Date or will otherwise not be available to Purchaser, or not agree to employment by, or an independent contractor relationship with, Purchaser, on substantially the same terms and conditions as his or her current employment by, or independent contractor relationship with, Seller. Since the enactment of the Worker Adjustment and Retraining Notification Act (the "WARN Act"), Seller has not effectuated (i) a "plant closing" (as defined in the WARN Act) affecting any site of employment or one or more facilities or operating units within any site of employment or facility of Seller or (ii) a "mass layoff" (as defined in the WARN Act) affecting any site of employment or facility of Seller; and Seller has not been affected by any transaction or engaged in layoffs or employment terminations sufficient in number to trigger application of any similar state or local Law. Except as set forth in Schedule 3.19, none of Seller's employees has suffered an "employment loss" (as defined in the WARN Act) since six (6) months prior to the Closing Date.

3.20 BROKERS AND FINDERS. Except for Norman R. McMullin, whose compensation is being paid by, and is the total responsibility of, Seller, no finder or any agent, broker or other Person acting pursuant to authority of Seller or the Shareholder is entitled to any commission or finder's fee in connection with the transactions contemplated by this Agreement.

3.21 COMPLIANCE WITH THE IMMIGRATION REFORM AND CONTROL ACT. Seller is in full compliance with and has not violated the terms and provisions of the Immigration Reform and Control Act of 1986, and all related regulations promulgated thereunder (the "Immigration Laws"). Seller has never been the subject of any inspection or investigation relating to its compliance with or violation of the Immigration Laws, nor has it been warned, fined or otherwise penalized by reason of any failure to comply with the Immigration Laws, nor is any such proceeding pending or threatened.

3.22 ADVERTISERS AND CUSTOMERS. A correct and complete copy of the names of those Persons who are advertisers and commercial printing customers of the Business is included in Schedule 3.22 (the "Advertiser and Customer Lists"). Seller maintains and is transferring to Purchaser as part of the Assets, a correct and complete list of each paid subscriber to Seller's publications along with current address, phone number and subscription information (the "Subscriber List"). The Advertiser and Customer Lists and the Subscriber Lists have been properly maintained and kept current, and have not been sold, leased, licensed or otherwise disclosed either in whole or in part, to any Person not a party to this Agreement (other than those employees of Seller whose duties require access thereto).

3.23 LITIGATION. Except as disclosed on Schedule 3.23, within the past fifteen (15) years there has not been and there currently is no Litigation pending, or to the Knowledge of Seller, Mr. Gemmer or

the Shareholder, threatened against Seller or otherwise with respect to the Business, Assets, or Gemmer Real Property, and there is no basis for any such Litigation or any facts or the occurrence of any event that reasonably might give rise to any Litigation. Except as disclosed on Schedule 3.23, Seller is not subject to ongoing obligations under any consent decree, Order or settlement of any kind.

3.24 PROSPECTIVE CHANGES. None of Seller, Mr. Gemmer or the Shareholder has Knowledge of any changes reasonably expected to occur within one (1) year from the date of this Agreement to Seller, the Business, the Gemmer Real Property, the Assets, Seller's Liabilities, relations with employees, relations with customers, advertisers or subscribers, competitive situation or relations with suppliers, or governmental actions or Laws affecting the Business, which, if they occur, would have a Material Adverse Effect with respect to Seller.

3.25 INTERESTED TRANSACTIONS. Except for the lease of the Gemmer Real Property to Seller, Seller is not a party to any Contract or other transaction with any Affiliate of Seller, any Related Party of any Affiliate of Seller (other than as a shareholder or employee of Seller), or any Person in which any of the foregoing (individually or in the aggregate) beneficially or legally owns, directly or indirectly, five percent (5%) or more of the equity or voting interests. None of the Persons described in the preceding sentence owns, or during the last three (3) years has owned, directly or indirectly, beneficially or legally, (individually or in the aggregate) five percent (5%) or more of the equity or voting interests of any Person that competes with the Business.

3.26 ENVIRONMENTAL. To the Knowledge of Seller, Mr. Gemmer or the Shareholder, except as set forth in Schedule 3.26:

(a) There is no Environmental Litigation (or any Litigation against any Person whose Liability for Environmental Matters, or any violation of Environmental Laws, Seller has or may have retained or assumed contractually or by operation of Law) pending or threatened with respect to (i) the ownership, use, condition or operation of the Business, the Assets, the Gemmer Real Property or any other asset of Seller or any asset formerly held for use or sale by Seller or any of its predecessors or former Subsidiaries or formerly held for use or sale by any of the current or former shareholders of Seller with respect to the Business; or (ii) any violation or alleged violation of any Environmental Law or any Order related to Environmental Matters. There are no existing violations of (i) any Environmental Law or (ii) any Order related to Environmental Matters, with respect to the ownership, use, condition or operation of the Business, the Assets, the Gemmer Real Property or any other asset of Seller or any asset formerly held for use or sale by Seller or any of its predecessors or former Subsidiaries or formerly held for use or sale by any of the current or former shareholders of Seller with respect to the Business. There are no past or present actions, activities, circumstances, conditions, events or incidents, including, without limitation, any Environmental Matter, that could form the basis of (i) any Environmental Litigation against Seller or, with respect to the Gemmer Real Property, Mrs. Gemmer or (ii) any Litigation against any Person whose Liability (or any portion thereof) for Environmental Matters or violation of Environmental Laws Seller has or may have retained or assumed contractually or by operation of Law. Neither Seller nor any of its predecessors or former Subsidiaries nor anyone Known to Seller, Mr. Gemmer or Mrs. Gemmer has used any assets or premises of Seller or any of its predecessors or former Subsidiaries or any part thereof or any of the Gemmer Real Property for the handling, treatment, storage or disposal of any Hazardous Substances. The disclosure of facts set forth in Schedule 3.26 shall not relieve Seller, Mr. Gemmer or the Shareholder of any of its, his or her obligations under this Agreement, specifically including, without limitation, the obligation to indemnify Purchaser as set forth in Article VIII hereof.

(b) No release, discharge, spillage or disposal of any Hazardous Substances has occurred or is occurring at any assets of Seller or any of its predecessors or former Subsidiaries or any part thereof, or any of the Gemmer Real Property while or before such assets or premises were owned, leased, operated, or managed, directly or indirectly, by Seller or in the case of the Gemmer Real Property, while or before such assets were owned by Mrs. Gemmer.

(c) No soil or water in, under or adjacent to any assets or premises of Seller or assets formerly held for use or sale by Seller or any of its predecessors or former Subsidiaries or any part of the Gemmer Real Property has been contaminated by any Hazardous Substance while or before such assets or premises were owned, leased, operated or managed, directly or indirectly, by Seller or any of its predecessors or former Subsidiaries or in the case of the Gemmer Real Property, while or before such assets were owned by Mrs. Gemmer.

(d) All waste containing any Hazardous Substances generated, used, handled, stored, treated or disposed of (directly or indirectly) by Seller or any of its predecessors or its former Subsidiaries has been released or disposed of in compliance with all applicable reporting requirements under any Environmental Laws, and none of Seller, Mr. Gemmer or the Shareholder has Knowledge of any Environmental Litigation with respect to any such release or disposal.

(e) All underground tanks and other underground storage facilities presently or previously located at either the Goshen Real Property, the Gemmer Real Property, or any other real property owned, leased, operated or managed by Seller or any of its predecessors or former Subsidiaries or any such tanks or facilities located at any of the Goshen Real Property, the Gemmer Real Property or any other real property while any of these properties was owned, leased, operated, or managed by Seller (or with respect to the Gemmer Real Property, while it was owned by Mrs. Gemmer) or any of its predecessors or former Subsidiaries are listed together with the capacity and contents (former and current) of each such tank or facility in Schedule 3.26. None of such underground tanks or facilities is leaking or has ever leaked.

(f) Except for ink and oil that are removed in a timely manner and in the ordinary course of business of Seller, all waste, hazardous or otherwise, has been removed from the Gemmer Real Property and the Goshen Real Property and any other real property of Seller and its respective predecessors or former Subsidiaries.

(g) Seller and its predecessors or former Subsidiaries and, with respect to the Gemmer Real Property, Mrs. Gemmer have complied with all applicable reporting requirements under all Environmental Laws concerning the disposal or release of Hazardous Substances, and neither Seller nor any of its predecessors or former Subsidiaries nor Mrs. Gemmer has made any such reports concerning the Goshen Real Property, the Gemmer Real Property or any other real property of Seller or concerning the operations or activities of Seller or any of its predecessors or former Subsidiaries.

(h) No building or other Improvement on either the Goshen Real Property or the Gemmer Real Property, or any other real property owned, leased, operated or managed by Seller, or the Gemmer Real Property, contains any asbestos-containing materials.

(i) Without limiting the generality of any of the foregoing, (i) all on-site and off-site locations where Seller or any of its predecessors or any of its former Subsidiaries has stored, disposed or

arranged for the disposal of Hazardous Substances are identified in Schedule 3.26, and (ii) no polychlorinated biphenyls (PCB's) are used or stored on or in the Goshen Real Property, or any other real property owned, leased, operated or managed by Seller or any of its predecessors or any of its former Subsidiaries, or the Gemmer Real Property.

3.27 YEAR 2000 COMPLIANCE. Except as set forth on Schedule 3.27, Seller's business systems, including without limitation its computer hardware and software are "Year 2000 Compliant." The expression "Year 2000 Compliant" means that the system in question (the "System"): (i) will correctly and unambiguously process date information at all times, including as the years 1999 and 2000 are approached and reached; (ii) will not suffer any amends, aborts, improper operation or other interruptions in operation as a result of the approach or reaching of any particular date or the improper processing of any date. "Processing" of date information includes, but is not limited to, accepting input of dates without ambiguity, outputting all dates in an unambiguous form, and performing calculations, comparisons or operations or taking action or making decisions using dates, portions of dates, or time periods. The concept of Year 2000 Compliance includes all issues relating to the handling of dates or time periods, including the processing of the leap year that will occur in the year 2000. In the case of products with which the parties provide that the System shall perform as a large system, then the expression "Year 2000 Compliant" means that the larger system shall be Year 2000 Compliant.

3.28 COMPUTER SOFTWARE AND DATABASE. All Computer Software licensed, leased or otherwise used in connection with the Business is standard, pre-packaged and subject to a "Shrink Wrap" license and none of such Computer Software is proprietary, internally developed or owned by Seller. Seller has, and upon consummation of the transactions contemplated by this Agreement, Purchaser will have, all Computer Software and Databases that are necessary to conduct the Business as presently conducted by Seller and all documentation and, to the Knowledge of Seller, Mr. Gemmer or the Shareholder, necessary licenses relating to all such computer Software (other than type fonts) and Databases; provided, however, for purposes of the indemnification under Section 8.02(a), the foregoing sentence shall be deemed to not be qualified to the Knowledge of Seller, Mr. Gemmer or the Shareholder.

3.29 INSURANCE. All of the Assets and the operations of Seller and the Business of an insurable nature and of a character usually insured by companies of similar size and in similar businesses are insured by Seller, and the Gemmer Real Property is insured by Mrs. Gemmer, in such amounts and against such losses, casualties or risks as is (i) usual in such companies and for such assets, operations and businesses, (ii) required by any Law applicable to Seller (or to Mrs. Gemmer with respect to the Gemmer Real Property) or the Business, or (iii) required by any Contract of Seller or any Contract of Mrs. Gemmer relating to the Gemmer Real Property. Schedule 3.29 contains a complete and accurate summary of all insurance policies held or owned by Seller (or by Mrs. Gemmer relating to the Gemmer Real Property) and now in force and such Schedule indicates the name of the insurer, the type of policy, the risks covered thereby, the amount of the premiums, the term of each policy, the policy number and the amounts of coverage and deductible in each case and all outstanding claims thereunder. All such policies are in full force and effect and enforceable in accordance with their terms. Neither Seller nor Mrs. Gemmer, as the case may be, is now in Default regarding the provisions of any such policy, including, without limitation, failure to make timely payment of all premiums due thereon, and neither has failed to give any notice or present any claim thereunder in due and timely fashion. Neither Seller nor Mrs. Gemmer has been refused, or denied renewal of, any insurance coverage in connection with the ownership or use of the Assets or the Gemmer Real Property or the operation of the Business. In

addition to the deductibles set forth on Schedule 3.29, such Schedule discloses all risks that are self-insured by Seller or Mrs. Gemmer that in the ordinary course of business could be insured.

3.30 STATEMENTS TRUE AND CORRECT. No representation or warranty made by Seller, Mr. Gemmer or the Shareholder, nor any statement, certificate or instrument furnished or to be furnished to Purchaser pursuant to this Agreement or any other document, agreement or instrument referred to herein or therein, including, without limitation, the Financial Statements, contains or will contain any untrue statement of fact or omits or will omit to state a fact necessary to make the statements contained therein not misleading.

ARTICLE IV
REPRESENTATIONS AND WARRANTIES OF PURCHASER AND GRAY

Each of Purchaser and Gray hereby represents and warrants to Seller and the Shareholder that:

4.01 ORGANIZATION. Gray is a corporation duly organized, validly existing, and in good standing under the laws of the State of Georgia, with the corporate power and authority to carry on its business and to own, lease and operate its assets. Purchaser is a corporation duly organized, validly existing, and in good standing under the laws of the State of Georgia, with the corporate power and authority to carry on its business and to own, lease and operate its assets.

4.02 CAPACITY AND VALIDITY. Each of Purchaser and Gray has the corporate power, capacity and authority necessary to enter into and perform its obligations under this Agreement and the Other Agreements to which it is a party and to consummate the transactions contemplated hereby and thereby. The execution, delivery and performance of this Agreement and the Other Agreements have been approved by all necessary action of the directors and shareholders of each of Purchaser and Gray. This Agreement and the Other Agreements to which Purchaser or Gray is a party have been executed and delivered by duly authorized officers of Purchaser and of Gray, as the case may be, and each constitutes the legal, valid and binding obligation of Purchaser and of Gray, enforceable against Purchaser and against Gray in accordance with its terms, except as enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium or other Laws affecting creditors' rights generally.

4.03 NO CONFLICT. Neither the execution, delivery and performance of this Agreement and the Other Agreements to which it is a party by Purchaser or by Gray nor the consummation of the transactions contemplated hereby or thereby, will (i) conflict with or result in a violation, contravention or breach of any of the terms, conditions or provisions of the Articles of Incorporation, as amended, or By-Laws, as amended, of either Purchaser or Gray, (ii) result in a Default under, any Contract or License to which Purchaser or Gray is a party or by which Purchaser or Gray is bound, (iii) result in the violation of any Law or Order, or (iv) result in the creation or imposition of any Lien.

4.04 BROKERS AND FINDERS. No finder or any agent, broker or other Person acting pursuant to authority of Purchaser or Gray is entitled to any commission or finder's fee in connection with the transactions contemplated by this Agreement.

4.05 STATEMENTS TRUE AND CORRECT. No representation or warranty made by Purchaser or by Gray, nor any statement, certificate or instrument furnished or to be furnished to Seller or the Shareholder pursuant to this Agreement or any other document, agreement or instrument referred to

herein or therein, contains or will contain any untrue statement of fact or omits or will omit to state a fact necessary to make the statements contained therein not misleading.

ARTICLE V
COVENANTS AND ADDITIONAL AGREEMENTS OF SELLER, THE SHAREHOLDER,
MR. GEMMER, THE PURCHASER AND GRAY

5.01 OPERATION OF BUSINESS PENDING CLOSING.

Prior to the Closing Date, except with the prior written consent of Purchaser or Gray and except as necessary to effect the transactions contemplated in this Agreement, Seller shall, and the Shareholder and Mr. Gemmer shall cause Seller to:

(a) conduct its Business in substantially the same manner as presently being conducted, and refrain from entering into any transaction or Contract other than in the ordinary course of business consistent with past practice;

(b) confer on a regular and frequent basis with Purchaser to report Material operational matters and to report the general status of ongoing operations;

(c) notify Purchaser of any unexpected emergency or other change in the normal course of the operation of the Business, the Assets or the Gemmer Real Property and of any Litigation (or communications indicating that the same may be contemplated), affecting the Business, the Assets or the Gemmer Real Property and keep Purchaser fully informed of such events and permit its representatives prompt access to all materials prepared in connection therewith;

(d) except in the ordinary course of business consistent with past practice, not make any capital expenditure;

(e) not take any action, or omit to take any action, that would cause the representations and warranties contained in Article III hereof to be incorrect or incomplete;

(f) promptly notify Purchaser in writing of any Material Adverse Change with respect to Seller, or any condition or event that threatens to result in a Material Adverse Change with respect to Seller, of which it is aware; and

(g) not make any agreement or commitment that will result in or cause to occur a Default of any of the items contained in paragraphs (a) through (f) above.

5.02 RIGHT OF INSPECTION; ACCESS. In order to allow Purchaser to conduct its due diligence investigation, including, without limitation, environmental due diligence, Seller and, with respect to the Gemmer Real Property, Mrs. Gemmer, shall give to Purchaser and its designees, during normal working hours, full and free access to all of the Assets, the Gemmer Real Property, Contracts, reports and other records of the Business and shall furnish to Purchaser and its designees all additional financial, legal and other information with respect to Seller, the Gemmer Real Property, the Business and the Assets that Purchaser may reasonably request. Seller shall also allow and arrange for Purchaser and its designees free and full access and opportunity, during normal business hours, to consult and meet with the officers,

directors, employees, attorneys, accountants and other agents of Seller. Seller shall instruct such individuals to cooperate fully with Purchaser and its designees. Purchaser and its designees shall have the right to make copies of any of the records referred to above. Purchaser shall give Seller reasonable prior notice of its intention to conduct any inspections and Seller may have a representative present.

5.03 CONFIDENTIALITY. For a period of three years from and after the date hereof, each of Purchaser, Gray, Seller, Mr. Gemmer and the Shareholder agrees that it will not, and will use reasonable efforts to ensure that none of its representatives or Affiliates will, use in the conduct of its business (except as contemplated by this Agreement), or disclose to or file with any other Person, (a) any confidential or non-public information relating to the other parties to this Agreement or (b) the existence of this Agreement or the fact of the transactions contemplated hereby, except (i) for a disclosure that is required by Law or by a Governmental Authority or a securities exchange, or in connection with a filing by Gray under federal or state securities laws or is reasonably believed to be so required; (ii) information that is ascertainable or obtained from public or published information; (iii) information received from a Third Party not Known to the disclosing party to be under an obligation to keep such information confidential; (iv) information independently developed by the disclosing party; or (v) information disclosed to or filed with any Persons necessary to obtaining the consents, the equity and the financing relating to the transactions contemplated by this Agreement. Notwithstanding the foregoing, (i) Purchaser shall not, in the course of any investigation it shall deem necessary and desirable in connection with the transactions contemplated by this Agreement, be prohibited from discussing Seller, the Business, the Assets and the Gemmer Real Property with others having business dealings with Seller; (ii) the foregoing provisions of this Section 5.03 shall not apply to Gray or Purchaser or any of their respective representatives or Affiliates after consummation of the transactions contemplated hereby at the Closing, and (iii) Gray shall be permitted to disclose this Agreement, except for the Purchase Price and the consideration paid for the Non-Competition, Non-Solicitation and Confidentiality Agreement, in its press release.

5.04 SCHEDULES.

(a) At any time and from time to time between the date hereof and the Closing Date, Seller, Mr. Gemmer and the Shareholder shall have the right and the continuing obligation to supplement any of the Schedules contained in Article III hereof with respect to any matter arising after the date hereof that, if existing or occurring at such date, would have been required to be set forth or described in such Schedules; provided, however, that Purchaser may unilaterally extend the Closing Date if necessary to allow Purchaser ten (10) business days to review such supplements to the Schedules prior to the Closing Date. If, in Purchaser's reasonable determination, any such supplements to the Schedules reveal any Material Adverse Change with respect to Seller, or any condition or event that threatens to result in a Material Adverse Change with respect to Seller, Purchaser may terminate this Agreement pursuant to Section 9.01.

(b) Within ten (10) days after the Closing Date, Seller may deliver to Purchaser complete and correct copies of Contracts that Seller would like Purchaser to assume. Purchaser will determine in its sole and absolute discretion which, if any, of the Contracts proposed by Seller pursuant to the foregoing sentence it will assume. To the extent that Purchaser agrees to assume any of such Contracts, it may unilaterally amend Exhibit X to reflect such additional Contracts that are included in the Assumed Liabilities.

5.05 OTHER OFFERS AND EXCLUSIVE DEALING. Unless and until this Agreement is terminated prior to Closing pursuant to Article IX, neither Seller, Mr. Gemmer nor the Shareholder, acting in any capacity, will either directly or indirectly, through any officer, director, employee, agent or otherwise of Seller, Mr. Gemmer or of the Shareholder, (A) solicit, initiate, encourage or entertain submission of proposals or offers from any Person relating to (i) any purchase of the Assets, the Gemmer Real Property or any portion thereof, (ii) any merger, sale of substantial assets, or sale of stock of Seller or (iii) any similar transaction involving Seller or the shareholders, (B) participate in any discussions or negotiations regarding, or, except as required by a legal or judicial process, furnish to any other Person any information with respect to, or otherwise cooperate in any way with, or assist or participate in, facilitate or encourage, any effort or attempt by any other Person to consummate any of the transactions described in clauses (A)(i) through (iii) above involving Seller, Mr. Gemmer or the shareholders, or (C) approve or undertake any such transaction. Seller shall promptly communicate to Purchaser the terms of any such proposal or offer upon Knowledge or receipt of such proposal or offer or upon Knowledge that such a proposal or offer is likely to be made.

5.06 CERTAIN TAX AND OTHER MATTERS.

(a) Seller shall file timely all Tax Returns required to be filed by it with respect to periods ending on or before the Closing Date and with respect to the Gemmer Real Property, Mrs. Gemmer shall file timely all Tax Returns required to be filed by her for periods ending on or before the Closing Date.

(b) Purchaser, on the one hand, and Seller, Mr. Gemmer and the Shareholder, on the other hand, shall provide the other parties to this Agreement, at the expense of the requesting party, with such assistance as may reasonably be requested by any of them in connection with the preparation of any Tax Return, any audit or other examination report or filings by any Governmental Authority, or any judicial or administrative proceedings relating to Liability for Taxes, and each will retain and provide the requesting party with any records or information that may be relevant to any of the foregoing.

5.07 CONSENTS AND APPROVALS. Seller shall obtain all waivers, consents and approvals of, and provide all notices to, all Persons whose waiver, consent or approval is required by any Contract, Order, Law or License relating to Seller or to Mrs. Gemmer with respect to the Gemmer Real Property in order to consummate the transactions contemplated by this Agreement. All written waivers, consents and approvals obtained by, and all notices provided by, Seller shall be delivered to Purchaser at or before the Closing in form and content reasonably satisfactory to Purchaser.

5.08 SUPPLYING FINANCIAL STATEMENTS. Seller shall deliver to Purchaser true and complete copies of unaudited balance sheets of Seller as of the end of each calendar month ending subsequent to the date hereof and prior to the Closing Date and the related statements of income and cash flows for each month then ended. All such unaudited interim financial statements shall be in the same format as the Financial Statements.

5.09 CONSUMMATION OF TRANSACTIONS; CLOSING CONDITIONS. Subject to the terms and conditions herein provided, each of the parties hereto agrees to take, or cause to be taken, all commercially reasonable actions to consummate the transactions contemplated by this Agreement and to satisfy the conditions precedent to Closing set forth in Articles VI and VII of this Agreement.

5.10 USE OF NAME. Within ten (10) days after the Closing Date, Seller (i) shall change its name to a name wholly dissimilar to "The Goshen News," "The Goshen Extra," "News Printing

Company" or any variations or derivations thereof; (ii) shall provide evidence of such name change as Purchaser may reasonably request; and (iii) shall not thereafter use, or permit any of its Affiliates to use, the names "The Goshen News," "The Goshen Extra," "News Printing Company" or any similar names or any variations or derivations thereof in any circumstances. In connection with enabling Purchaser, at or after the Closing Date, to use the names "The Goshen News," "The Goshen Extra," "News Printing Company" and any variations or derivations thereof, Seller shall execute and deliver to Purchaser all consents related to such use of name, and related trademarks, as may be reasonably requested by Purchaser from time to time. All rights to the names "The Goshen News," "The Goshen Extra," and "News Printing Company" and any variations or derivations thereof, and all rights to all names, and related trademarks used in connection with the Business are being conveyed to Purchaser as part of the Assets.

5.11 EXPENSES.

(a) Except as provided below, regardless of whether the transactions contemplated by this Agreement are consummated, Seller shall be responsible for all expenses and fees incurred by it and by the Shareholder in connection with the transactions contemplated hereby. In no event shall any of the Assets be utilized for or reduced by the payment of any such fees or expenses. Seller and the Shareholder hereby, jointly and severally, represent and warrant that no such fees or expenses have been paid by Seller from the Assets prior to the date of this Agreement.

(b) Simultaneously with the execution and delivery of this Agreement, Seller shall pay out of the Asset Purchase Price all Taxes, if any, relating to the transfer of the Assets to Purchaser, and Mrs. Gemmer shall pay out of the Gemmer Real Property Purchase Price all Taxes, if any, relating to the transfer of the Gemmer Real Property to Purchaser. Seller and Mrs. Gemmer shall each file all necessary documentation and Tax Returns required to be filed by it or by her with respect to such Taxes.

(c) On or before the Closing Date, Seller (and with respect to the Gemmer Real Property, Mrs. Gemmer) shall pay any fees and expenses in connection with the prepayment, release, satisfaction or removal of any Liens affecting the Assets or the Gemmer Real Property.

5.12 FURTHER ASSURANCES. At any time and from time to time after the Closing Date, Seller, Mr. Gemmer and the Shareholder shall, at the request of Purchaser, take any and all actions necessary to fulfill their respective obligations hereunder, to put Purchaser in actual possession and control of the Assets and the Gemmer Real Property and execute and deliver such further instruments of conveyance, sale, transfer and assignment, and take such other actions necessary or desirable to effectuate, record or perfect the transfer of the Assets and the Gemmer Real Property to Purchaser free and clear of all Liens, to confirm the title of the Assets and the Gemmer Real Property to Purchaser, to assist Purchaser in exercising rights relating thereto, or to otherwise effectuate or consummate any of the transactions contemplated hereby.

5.13 EMPLOYEES. Concurrent with the Closing, the employment by Seller of its employees shall terminate. Seller, Mr. Gemmer and Purchaser understand and agree that Purchaser shall offer employment to all current employees of Seller, except John Gemmer, and Jane Gemmer, specifically including those employees set forth on Exhibit 5.13, at their current pay rates, such employment to be at will and subject to Purchaser's employment policies and practices and without restriction on Purchaser's ability to end the employment relationship with any of such individuals. Purchaser shall hire employees for no particular term, and Purchaser may discharge such hired employees for any reason or no reason

without further Liability to employees or to Seller. The former employees of Seller hired by Purchaser shall be eligible for Purchaser's then current benefit plans and shall receive credit for their prior service with Seller for purposes of participation in Purchaser's insurance, 401(k) and vacation benefits. Notwithstanding the foregoing sentence, such employees will be eligible to participate in Purchaser's Retirement Plan only after one year of employment with Purchaser.

5.14 DELIVERY OF BOOKS AND RECORDS. Seller and, with respect to the Gemmer Real Property, Mrs. Gemmer, shall deliver to Purchaser at the Closing all original documents, books and records pertaining to the Business (except minute books and stock records) and to the Assets and the Gemmer Real Property that are legally significant or useful to the Business and shall deliver copies of all other documents, books and records pertaining to the Business and to the Assets and the Gemmer Real Property. Seller may retain copies of any of the foregoing for its own use and Purchaser shall provide Seller with reasonable access to, or provide Seller with copies of, such documents, books and records. Without limiting the generality of the foregoing, Seller shall deliver to Purchaser at the Closing all documents and records relating to the Intellectual Property, including without limitation, the original Certificates of Registration for all Letters Patent, trademarks and service marks listed on Schedule 3.11 and all such documents relating thereto along with any other documents necessary to transfer title thereto and to record such transfer before the respective patent and trademark offices or similar Governmental Authorities.

5.15 TITLE SEARCH; DISCHARGE OF LIENS; TITLE INSURANCE. As soon as practicable after the date hereof, Seller, Mr. Gemmer and the Shareholder shall (i) each use commercially reasonable efforts to ascertain all Liens, if any, to which any of the Assets or the Gemmer Real Property is subject, (ii) notify Purchaser in writing of the nature and extent thereof, and (iii) discharge all such Liens (other than Permitted Liens). Without limiting the generality of the foregoing, Seller and the Shareholder shall provide to Purchaser Uniform Commercial Code searches (conducted as soon as possible after the date hereof and updated through a date not more than ten (10) days prior to the Closing Date) of filings made pursuant to Article 9 thereof in all jurisdictions where Seller has any Assets.

5.16 QUALIFICATION AND CORPORATE EXISTENCE.

(a) Seller shall deliver to Purchaser (i) certificates of the Secretary of State of the State of Indiana stating that Seller is a corporation in existence under the Laws of such state and has paid all applicable Taxes due to such state and (ii) certificates of the appropriate officials of the states and foreign jurisdictions listed on Schedule 3.02(a), each dated not more than ten (10) days prior to the Closing Date, stating that Seller is duly qualified and in good standing to transact business as a foreign corporation as stated in Section 3.02 of this Agreement in each such state or foreign jurisdiction and has paid all applicable Taxes due to each such state or foreign jurisdiction.

(b) Gray and Purchaser shall deliver to Seller certificates of the Secretary of State of the State of Georgia dated not more than ten (10) days prior to the Closing Date, stating that Gray or Purchaser, as the case may be, is a corporation in existence under the laws of such state. Purchaser shall deliver to Seller a certificate of the Secretary of State of the State of Indiana dated not more than ten (10) days prior to the Closing Date, stating that Purchaser is a corporation qualified or licensed to do business as a foreign corporation under the laws of such state.

5.17 PURCHASER'S ASSISTANCE TO SELLER. After the Closing Date, Purchaser agrees to allow Seller use of its computer software and hardware so that Seller may prepare a financial statement for the

time period up to and including the date prior to the Closing Date at no expense to Seller. Purchaser agrees to provide laborers and transportation to move certain corporate records to Seller's new office. Purchaser agrees to continue Accounts Payable processing and payroll processing on its computers using Purchaser's employees, facilities and equipment for up to sixty (60) days after the Closing. Further, Purchaser will allow Seller reasonable access to corporate records of News Printing Company, Inc. necessary to prepare filings of industry or governmental reports. For a period of thirty-seven (37) months after the Closing Date, Purchaser will notify Seller prior to any records disposal.

ARTICLE VI
CONDITIONS PRECEDENT TO OBLIGATIONS OF GRAY AND PURCHASER

The obligations of Gray and Purchaser to consummate the transactions contemplated by this Agreement shall be subject to the satisfaction, on or before the Closing Date, of each of the following conditions, any of which may be waived, in whole or in part, by Gray and Purchaser for purposes of consummating such transactions:

6.01 REPRESENTATIONS TRUE AND COVENANTS PERFORMED AT CLOSING. The representations and warranties made by Seller, the Shareholder or Mr. Gemmer in this Agreement and the Other Agreements shall be complete and correct on the Closing Date with the same force and effect as if this Agreement had been executed on and as of the Closing Date. Seller, the Shareholder and Mr. Gemmer each shall have duly performed all of the agreements and covenants and satisfied all of the conditions to be performed or complied with by either of them on or prior to the Closing Date. Seller, the Shareholder and Mr. Gemmer each shall execute and deliver to Purchaser a certificate dated as of the Closing Date certifying the fulfillment of the conditions of this Section 6.01.

6.02 NO INJUNCTION, ETC. No Litigation, Law or Order shall have been instituted, enacted, entered, threatened or proposed by a Third Party before any court or Governmental Authority to enjoin, restrain, prohibit, or obtain damages in respect of this Agreement or the consummation of the transactions contemplated hereby, if such Litigation, Law or Order, in the reasonable judgment of Purchaser, would make it inadvisable to consummate such transactions.

6.03 NO MATERIAL ADVERSE CHANGE. There shall not have occurred any Material Adverse Change with respect to Seller, the Business or the Gemmer Real Property, or any condition or event which threatens a Material Adverse Change with respect to Seller, the Business or the Gemmer Real Property, from the Balance Sheet Date. Seller and the Shareholder each shall have delivered to Purchaser a certificate dated as of the Closing Date executed by Seller and the Shareholder, respectively, certifying the foregoing statement.

6.04 APPROVAL OF LEGAL MATTERS. All actions, proceedings, instruments and documents reasonably deemed necessary or appropriate by Gray and Purchaser or their attorneys to effectuate this Agreement and to consummate the transactions contemplated hereby shall have been approved by such attorneys in the exercise of their reasonable discretion.

6.05 BILL OF SALE; ASSIGNMENTS; ETC. Purchaser shall have received from Seller an executed bill of sale substantially in the form attached hereto as Exhibit 6.05, an executed Assignment and Assumption Agreement substantially in the form attached hereto as Exhibit 7.04, and such other assignments and other conveyance documents reasonably necessary or desirable to transfer the Assets to Purchaser.

6.06 OPINIONS OF COUNSEL. Purchaser shall have received an opinion, dated the Closing Date, of Browne Spitzer Herriman Stephenson Holderead & Musser, counsel to Seller and the Shareholder, substantially in the form attached hereto as Exhibit 6.06.

6.07 INCUMBENCY CERTIFICATE. Seller shall have delivered to Purchaser an incumbency certificate or certificates dated the Closing Date certifying the incumbency of all officers of Seller who have executed this Agreement or any of the Other Agreements. These certificates shall contain specimens of the signatures of each of such officers and shall be executed by an officer of Seller other than an officer whose incumbency or authority is certified.

6.08 LICENSES. Purchaser shall have received all Licenses necessary to operate the Business and to own and operate the Assets and the Gemmer Real Property as currently operated by Seller.

6.09 WARRANTY DEED, TITLE INSURANCE AND SURVEY. Purchaser shall have received general warranty deeds in form and substance reasonably satisfactory to Purchaser in respect of the Goshen Real Property and the Gemmer Real Property (which general warranty deeds shall include a transfer or assignment of any warranties of title, whether general, statutory or limited, which Seller or Mrs. Gemmer has received from any of its or her grantors).

6.10 ENVIRONMENTAL REPORT. Purchaser shall have received such independent verifications as Purchaser reasonably deems necessary that no condition exists with respect to the Assets previously or currently owned, leased, operated, or controlled by Seller, any of its predecessors or any of its former Subsidiaries or with respect to any of the Gemmer Real Property that has resulted in, or would reasonably be expected to result in, any violation of an Environmental Law, any Environmental Litigation, or in any Liability relating to an Environmental Matter. Such independent verifications shall include an estimate of the total cost of remedying any such condition reported therein.

6.11 DUE DILIGENCE REVIEW. Purchaser and its lenders each shall have been reasonably satisfied with its review of the Schedules provided by Seller and the Shareholder pursuant to this Agreement and each also shall have been reasonably satisfied with its review of the Business, Assets, Contracts, books and records of Seller and the Gemmer Real Property.

6.12 CERTIFIED COPIES OF RESOLUTIONS. Seller shall have delivered to Purchaser copies, certified by the duly qualified and acting Secretary or Assistant Secretary of Seller, of resolutions adopted by the Board of Directors and the shareholders approving this Agreement, the Other Agreements and the consummation of the transactions contemplated hereby and thereby, which resolutions shall be in form and substance reasonably satisfactory to Purchaser and Gray.

6.13 SALES AND USE TAXES. Purchaser shall have received from Seller a certificate or certificates from the Indiana Department of Revenue and from any other state and foreign Tax authority listed on Schedule 3.02(a) stating that no sales or use Taxes are due relating to the Business, Assets or the Gemmer Real Property prior to Closing.

6.14 COVENANTS NOT TO COMPETE. Seller, John Gemmer and Mrs. Gemmer shall have entered into an agreement with Purchaser containing covenants not to compete and covenants prohibiting disclosure of confidential information and trade secrets and covenants prohibiting the solicitation of customers and employees, substantially in the form attached hereto as Exhibit 6.14.

6.15 NON-FOREIGN CERTIFICATE. Seller and Mrs. Gemmer shall each deliver to Purchaser a certificate in form and substance satisfactory to Purchaser stating that neither Seller nor Mrs. Gemmer is a "foreign person" as defined in Section 1445 of the Code and the regulations thereunder.

6.16 LETTERS TESTAMENTARY. Purchaser shall have received a certified copy of Letters Testamentary related to the Estate dated not more than 30 days prior to the Closing Date.

ARTICLE VII

CONDITIONS PRECEDENT TO OBLIGATIONS OF SELLER, MR. GEMMER AND THE SHAREHOLDER

The obligations of Seller, Mr. Gemmer and the Shareholder to consummate the transactions contemplated by this Agreement shall be subject to the satisfaction, on or before the Closing Date, of each of the following conditions, any of which may be waived, in whole or in part, by Seller and the Shareholder for purposes of consummating such transactions:

7.01 REPRESENTATIONS TRUE AND COVENANTS PERFORMED AT CLOSING. The representations and warranties made by Gray and Purchaser in this Agreement and the Other Agreements shall be correct and complete on the Closing Date with the same force and effect as if this Agreement had been executed on and as of the Closing Date. Gray and Purchaser shall have duly performed all of the agreements and covenants and satisfied all of the conditions to be performed or complied with by it on or prior to the Closing Date. Gray and Purchaser shall execute and deliver to Seller and the Shareholder a certificate dated as of the Closing Date certifying the fulfillment of the conditions of this Section 7.01.

7.02 NO INJUNCTION, ETC. No Litigation, Law or Order shall have been instituted, enacted, entered, threatened or proposed by a Third Party before any court or Governmental Authority to enjoin, restrain, prohibit, or obtain damages in respect of this Agreement or the consummation of the transactions contemplated hereby, if such Litigation, Law or Order, in the reasonable judgment of Seller or the Shareholder, would make it inadvisable to consummate such transactions.

7.03 APPROVAL OF LEGAL MATTERS. All actions, proceedings, instruments and documents reasonably deemed necessary or appropriate by Seller, the Shareholder or their respective attorneys to effectuate this Agreement and to consummate of the transactions contemplated hereby shall have been approved by such attorneys in the exercise of their reasonable discretion.

7.04 ASSIGNMENT AND ASSUMPTION AGREEMENT. Seller shall have received from Purchaser an executed Assignment and Assumption Agreement, substantially in the form attached hereto as Exhibit 7.04.

7.05 INCUMBENCY CERTIFICATE. Each of Gray and Purchaser shall have delivered to Seller and the Shareholder an incumbency certificate or certificates dated the Closing Date certifying the incumbency of all officers of Gray and Purchaser who have executed this Agreement or any of the Other Agreements. These certificates shall contain specimens of the signatures of each of such officers and shall be executed by an officer of each of Gray and Purchaser other than an officer whose incumbency or authority is certified.

7.06 CERTIFIED COPIES OF RESOLUTIONS. Gray and Purchaser shall have delivered to Seller and the Shareholder copies, certified by the duly qualified and acting Secretary or Assistant Secretary of each of Gray and Purchaser, of resolutions adopted by the Board of Directors of Purchaser approving this Agreement, the Other Agreements and the consummation of the transactions contemplated by this Agreement.

ARTICLE VIII
SURVIVAL OF REPRESENTATIONS AND WARRANTIES; INDEMNIFICATION

8.01 SURVIVAL OF REPRESENTATIONS AND WARRANTIES; ACKNOWLEDGMENT OF GRAY'S AND PURCHASER'S RELIANCE. All of Seller's, Mr. Gemmer's, the Shareholder's, Gray's and Purchaser's representations, warranties, covenants, and agreements set forth in this Agreement shall survive the closing of the transactions contemplated by this Agreement, shall not merge in the performance of any obligation by any party hereto and (1) shall terminate and expire (i) with respect to any "General Claim" (as herein defined), on the later of (x) eighteen (18) months after the date of this Agreement or (y) eighteen (18) months after the date on which such covenant or agreement is to be performed hereunder; (ii) with respect to any "Tax Claim" (as herein defined), on the later of (x) the date upon which the Liability to which any such Tax Claim may relate is barred by all applicable statutes of limitation, taking into account any extensions or waivers thereof, and (y) the date upon which any claim for refund or credit related to such Tax Claim is barred by all applicable statutes of limitation; (iii) with respect to any "Employee Benefit Plan Claim" (as herein defined), on the date upon which the Liability to which any such Employee Benefit Plan Claim may relate is barred by all applicable statute of limitations; (iv) with respect to any "Third Party Liability Claim" (as herein defined), on the date upon which the Liability to which any such Third Party Liability Claim may relate is barred by all applicable statutes of limitations; and (v) with respect to any "Environmental Claim" (as defined herein), on the sixth (6th) anniversary of the date of this Agreement. As used in this Agreement, the following terms have the following meanings:

(a) "General Claim" means any claim based upon, arising out of or otherwise in respect of any inaccuracy in any representation or warranty or any breach of any covenant or agreement made or to be performed by Seller, Mr. Gemmer, the Shareholder, Gray or Purchaser pursuant to this Agreement or the Other Agreements, provided that a "General Claim" shall not include any Tax Claim, Employee Benefit Plan Claim, Third Party Liability Claim or Environmental Claim;

(b) "Tax Claim" means any claim based upon, arising out of or otherwise in respect of any inaccuracy in any representation or warranty or any breach of any covenant or agreement made or to be performed by Seller, Mr. Gemmer or the Shareholder pursuant to this Agreement or the Other Agreements, related to any Taxes, including, without limitation, those representations, warranties, covenants and agreements made by Seller and the Shareholder in Section 3.07 and any claim made under Section 8.02(e);

(c) "Environmental Claim" means any claim based upon, arising out of or otherwise in respect of any inaccuracy in any representation or warranty or any breach of any covenant or agreement made or to be performed by Seller, Mr. Gemmer or the Shareholder pursuant to this Agreement or the Other Agreements related to any Environmental Matter or Environmental Litigation, including without limitation, those

representations, warranties, covenants and agreements made by Seller, Mr. Gemmer and the Shareholder in Section 3.26, or any claim arising out of or otherwise in respect of the condition or occurrences described in Section 8.02(d).

(d) "Employee Benefit Plan Claim" means any claim based upon, arising out of or otherwise in respect of any inaccuracy in any representation or warranty or any breach of any covenant or agreement made or to be performed by Seller, Mr. Gemmer or the Shareholder pursuant to this Agreement or the Other Agreements related to any Employee Benefit Plan, including without limitation, those representations, warranties, covenants and agreements made by Seller and the Shareholder in Sections 3.07 and 3.17 and any claim made under Section 8.02(c), 8.02(e) or 8.02(f) in connection with an Employee Benefit Plan.

(e) "Third Party Liability Claim" means any claim made under Section 8.02(c), Section 8.02(f) or 8.02(g) that relates to any claim or other Litigation by a Third Party.

Seller, Mr. Gemmer, the Shareholder, Gray and Purchaser acknowledge and agree that Gray and Purchaser have performed a limited investigation of the Business and the Assets and the Gemmer Real Property; however, no investigation by Gray or Purchaser will diminish or obviate any of the representations, warranties, covenants, indemnities or agreements made or to be performed by Seller, Mr. Gemmer or the Shareholder pursuant to this Agreement or the Other Agreements or Purchaser's right to fully rely upon such representations, warranties, covenants, indemnities and agreements. Seller, Mr. Gemmer, the Shareholder and Purchaser acknowledge and agree that Purchaser has assisted Seller, Mr. Gemmer and the Shareholder in the preparation of certain of the Schedules referred to in Article III; provided, however, that Seller, Mr. Gemmer, the Shareholder and Purchaser acknowledge and agree that Purchaser prepared such Schedules from information provided by Seller and in no event shall Purchaser have any Liability with respect to such Schedules nor shall any of Seller's, Mr. Gemmer's or the Shareholder's representations, warranties, indemnities, or other agreements be obviated or diminished by Purchaser's preparation of any of such Schedules.

8.02 INDEMNIFICATION BY THE SHAREHOLDER, MR. GEMMER AND SELLER. Subject to the limitations contained in Section 8.04, the Shareholder, Mr. Gemmer and Seller, jointly and severally, agree to indemnify, defend, and hold harmless Purchaser and Gray (and each of their respective directors, officers, shareholders, employees, affiliates and assigns) from and against any and all Losses asserted against, imposed upon or incurred by any of the foregoing by reason of, resulting from, arising out of, based upon or otherwise in respect of the following notwithstanding any actual or alleged negligence of any of the Persons indemnified hereunder:

(a) any inaccuracy in any representation or warranty made by Seller, Mr. Gemmer or the Shareholder pursuant to this Agreement or the Other Agreements;

(b) any breach of any covenant or agreement made or to be performed by Seller, Mr. Gemmer or the Shareholder pursuant to this Agreement or the Other Agreements;

(c) any Undisclosed Liability;

(d) any of the following conditions or occurrences relating to the environment: (i) any cleanup, corrective removal or remedial actions, or property damage arising out of any condition

relating to the Business, the Assets or the Gemmer Real Property and existing prior to March 1, 1999; (ii) Third Party claims for personal injury where the exposure, incident or condition out of which the claim arises occurred in whole or in part on or prior to March 1, 1999 and relates to the Business, the Assets or the Gemmer Real Property; (iii) with respect to the Business, any transportation or disposition commenced, arranged or initiated on or before March 1, 1999 by or on behalf of Seller any of its predecessors or any of its former Subsidiaries of any substance owned or controlled by Seller, any of its predecessors or any of its former Subsidiaries or any substance from any premises owned or operated by Seller, any of its predecessors or any of its former Subsidiaries or from the Gemmer Real Property for any purpose, including, but not limited to, treatment, storage, disposal or recycling; (iv) with respect to the Business or the Gemmer Real Property, fines or penalties on account of the ownership, use, condition or operation of the Business or any of the Assets or the Gemmer Real Property by Seller, any of Seller's predecessors or any of its former Subsidiaries at any time prior to March 1, 1999; (v) any Liability to modify, restore, change or improve any of the Assets, any of the Gemmer Real Property or any assets of any of Seller's predecessors or any of its former Subsidiaries in order to effectuate compliance with any applicable Law or Order in effect as of March 1, 1999; or (vi) the removal of any and all asbestos or asbestos-containing materials that existed on or before March 1, 1999 in any premises owned, leased, operated or managed on or before March 1, 1999 by Seller, any of its respective predecessors or any of its former Subsidiaries or that existed on or before March 1, 1999 in any of the Gemmer Real Property; provided, however, Purchaser and Gray shall be solely responsible for, and none of Seller, Mr. Gemmer or the Shareholder will be required to indemnify, defend or hold harmless Purchaser or Gray for any Losses in connection with the removal of any and all asbestos or asbestos-containing materials resulting from, arising out of, based upon or otherwise in respect of any remodeling or other voluntary structural or physical change by Purchaser or Gray after the Closing Date in any premises that were owned, leased, operated or managed on or before the Closing Date by Seller;

(e) any Liability for any Taxes of Seller (or, with respect to the Gemmer Real Property, Mrs. Gemmer) that either accrued on or before March 1, 1999 or arose out of or relate to Seller or the operations of the Business or the Gemmer Real Property on or before March 1, 1999; and

(f) any Retained Liability; and

(g) any claim by any Person relating in any respect to (A) the ownership (legal or beneficial) of the capital stock of Seller, (B) this Agreement, the transactions contemplated hereby or corporate actions of Seller related thereto, or (C) the Estate of Dow M. Gorham.

Seller, Mr. Gemmer and the Shareholder, acting collectively, shall have the right at their own cost and expense to undertake to defend against any claim or cause of action under the hold harmless and indemnity provisions of this Section 8.02. Purchaser and Gray agree to provide written notice of any Third Party claims that may arise under this Section 8.02 promptly after Purchaser's or Gray's receipt of notice of any such claim from any Third Party. However, if the notice of such claim received by Purchaser and Gray consists of legal service of process, Purchaser or Gray shall provide telephone notice within 48 hours, followed by written notice within ten (10) days, after Purchaser's or Gray's receipt of notice of such claim. Failure to provide such written notice within the time specified shall not constitute a waiver of the provisions of this Section by Purchaser or by Gray, except to the extent that such failure shall have prejudiced Seller's, Mr. Gemmer's or the Shareholder's rights and abilities to defend a lawsuit that is the basis of such a claim. Any obligations or liabilities owed by Seller, Mr. Gemmer or the Shareholder to Purchaser or to Gray by reason of this Agreement, may be satisfied by Purchaser or Gray

offsetting against such amounts any and all sums due from Purchaser or Gray to Seller, Mr. Gemmer or the Shareholder for any reason whatsoever.

8.03. INDEMNIFICATION BY PURCHASER AND GRAY. Subject to the limitations contained in Section 8.04, Purchaser and Gray agree to indemnify, defend and hold harmless Seller (and its respective directors, officers, employees, affiliates and assigns), Mr. Gemmer and the Shareholder from and against all Losses asserted against, imposed upon or incurred by any of the foregoing by reason of, resulting from, arising out of, based upon or otherwise in respect of the following notwithstanding any actual or alleged negligence of any of the Persons indemnified hereunder:

(a) any inaccuracy in any representation or warranty made by Purchaser or Gray pursuant to this Agreement or the Other Agreements;

(b) any breach of any covenant or agreement made or to be performed by Purchaser or Gray pursuant to this Agreement or the Other Agreements;

(c) any Assumed Liability; and

(d) the removal of any and all asbestos or asbestos-containing materials resulting from, arising out of, based upon or otherwise in respect of any remodeling or other voluntary structural or physical change by Purchaser or Gray after the Closing Date in any premises that were owned, leased, operated or managed on or before the Closing Date by Seller.

Purchaser and Gray each shall have the right at its own cost and expense to undertake to defend against any claim or cause of action under the hold harmless and indemnity provisions of this Section 8.03. Seller, Mr. Gemmer and the Shareholder agree to provide written notice to Purchaser and to Gray of any Third Party claims that may arise under this Section 8.03 promptly after Seller's, Mr. Gemmer's or the Shareholder's receipt of notice of any such claim from any Third Party. However, if the notice of such claim received by Seller, Mr. Gemmer and the Shareholder consists of legal service of process, Seller, Mr. Gemmer or the Shareholder receiving such notice shall provide telephone notice within 48 hours, followed by written notice within ten (10) days, after Seller's, Mr. Gemmer's or the Shareholder's receipt of notice of such claim. Failure to provide such written notice within the time specified shall not constitute a waiver of the provisions of this Section by Seller, Mr. Gemmer and the Shareholder, except to the extent that such failure shall have prejudiced Purchaser's or Gray's rights and abilities to defend a lawsuit that is the basis of such a claim.

8.04 LIMITATIONS ON INDEMNIFICATION.

(a) Except as provided in Section 8.04(b), none of Seller, Mr. Gemmer, the Shareholder, Gray or Purchaser shall be required to indemnify any of the Persons specified in Section 8.02 or 8.03, as the case may be, until the amount of such Loss, when aggregated with all other Losses indemnified under such Section 8.02 or 8.03, respectively, shall exceed \$50,000 (the "Minimum Aggregate Liability Amount"), at which time Losses may be asserted for the Minimum Aggregate Liability Amount and all amounts in excess thereof; provided, however, that the foregoing Minimum Aggregate Liability Amount shall not apply to any Loss that results from or arises out of (i) a breach of a covenant or agreement, (ii) fraud, intentional misrepresentation or an intentional breach of warranty on the part of any of Seller, Mr. Gemmer, the Shareholder, Gray or Purchaser in this Agreement or the

Other Agreements, (iii) any Employee Benefit Plan Claim, (iv) any Tax Claims or (v) any Third Party Liability Claims that arise out of Section 8.02(g).

(b) No Person otherwise entitled to indemnification under this Agreement shall be indemnified pursuant to this Agreement to the extent that such Person's Losses are increased or extended by the willful misconduct, violation of Law or bad faith of such Person.

(c) The Shareholder and Mr. Gemmer, in the aggregate, shall not be liable for indemnification under Section 8.02 in an amount greater than Nine Million Six Hundred Fifty-Two Thousand Six Hundred Dollars (\$9,652,600). Notwithstanding the foregoing sentence, the Shareholder and Mr. Gemmer, in the aggregate, shall not be liable in an amount greater than \$1,250,000 for indemnification with respect to an Environmental Claim for diminution in the value of the Gemmer Real Property or the Goshen Real Property that is the sole and direct result of a Phase II environmental review of the Gemmer Real Property or the Goshen Real Property that was not required by a Governmental Authority.

8.05 INDEMNIFICATION PAYMENTS. Subject to the terms hereof, a party obligated to make indemnification payments pursuant to this Agreement shall pay to the indemnified party the full amount of any and all Losses (other than Losses resulting from a Third Party claim) within thirty (30) days of receipt of the notice thereof and the full amount of any Loss resulting from a Third Party claim within thirty (30) days of the date such Litigation is terminated or the date a final judgment or award is rendered and no appeal is taken, and thereafter the amount of such Loss shall bear interest at a rate equal to the lesser of one and one-half percent (1-1/2%) per month or the maximum amount permitted by Law. Purchaser and Gray shall be entitled to offset from any payments due to Seller, Mr. Gemmer or the Shareholder for any reason whatsoever, any amount due and owing to Purchaser or to Gray by way of indemnification pursuant to Section 8.02, and Purchaser and Gray shall not be liable for any amounts so offset.

ARTICLE IX TERMINATION

9.01 METHOD OF TERMINATION. This Agreement and the transactions contemplated by it may be terminated at any time prior to the Closing Date:

(a) By the mutual consent of Seller and Purchaser at any time;

(b) By Seller or the Shareholder at any time after March 3, 1999 if any of the conditions set forth in Article VII hereof have not been fulfilled or waived, unless such fulfillment has been frustrated or made impossible by any act or failure to act by Seller or Shareholder;

(c) By Purchaser or Gray at any time after March 3, 1999, if any of the conditions set forth in Article VI hereof have not been fulfilled or waived, unless such fulfillment has been frustrated or made impossible by any act or failure to act of Purchaser;

(d) By Purchaser at any time, if Purchaser determines in good faith that any Material Adverse Change, or any condition or event which threatens to cause a Material Adverse Change, with respect to Seller or the Business shall have occurred or been discovered since the Balance Sheet Date;

(e) By Purchaser pursuant to Section 9.04; or

(f) By Purchaser pursuant to Section 5.04.

9.02 NOTICE OF TERMINATION. Notice of termination of this Agreement, as provided for in this Article IX, shall be given by the parties so terminating to the other parties hereto in accordance with Section 11.01 of this Agreement.

9.03 EFFECT OF TERMINATION. In the event of a termination of this Agreement pursuant to Section 9.01 hereof, this Agreement shall become void and of no further force and effect, and each party shall pay the costs and expenses incurred by it in connection with this Agreement, and no party (or any of its agents, counsel, representatives, Affiliates or assigns) shall be liable to any other party for any Loss hereunder; provided, however, if non-occurrence of Closing is the direct or indirect result of the Default of any party of its obligations hereunder, including, without limitation, any Material inaccuracy in any representation or warranty made by such party, such defaulting parties shall be fully liable to the other parties hereto for any such Default. It is agreed that time is of the essence in the performance and satisfaction of this Agreement and each of the conditions specified in Articles VI and VII of this Agreement are material for purposes of this Agreement.

9.04 RISK OF LOSS. Seller assumes all risk of condemnation, destruction or Loss due to fire or other casualty from the date of this Agreement until the Closing. If the condemnation, destruction or Loss is such that the Business is interrupted or curtailed or the Assets or the Gemmer Real Property are Materially affected, then Purchaser shall have the right to terminate this Agreement. If the condemnation, destruction or Loss is such that the Business is neither interrupted nor curtailed nor the Assets or the Gemmer Real Property Materially affected, or if the Business is interrupted or curtailed or the Assets or the Gemmer Real Property are Materially affected and Purchaser nevertheless foregoes the right to terminate this Agreement, the Purchase Price shall be adjusted at the Closing to reflect such condemnation, destruction or Loss, to the extent that insurance or condemnation proceeds paid or to be paid to Purchaser are not sufficient to cover such destruction or Loss. If Purchaser and Seller are unable to agree upon the amount of such adjustment, the dispute shall be resolved jointly by the independent accounting firms then employed by Purchaser and Seller, and if said accounting firms do not agree, an arbitrator shall be selected by such accounting firms.

ARTICLE X DEFINITIONS

The following terms (in their singular and plural forms as appropriate) as used in this Agreement shall have the meanings set forth below unless the context requires otherwise:

"ACCOUNTS PAYABLE" means all accounts payable as of the date prior to the Closing Date, and other monies due from Seller for purchases of goods and the performance of services prior to the Closing Date and any other debt or Liability relating to the operation of the Business prior to the Closing Date.

"ACCOUNTS RECEIVABLE" means all accounts receivable, notes receivable (including without limitation all notes receivable from Pam and Dan Sheets), and other monies due to Seller for (i)

published advertising (both billed and unbilled) through the day prior to the Closing Date, (ii) newspaper sales (both direct and circulation) and (iii) commercial printing through the day prior to the Closing Date.

"AFFILIATE" of a Person means: (i) any Person directly, or indirectly through one or more intermediaries, controlling, controlled by or under common control with such Person; (ii) any officer, director, partner, employee, agent, or representative or direct or indirect beneficial or legal owner of any 10% or greater equity or voting interest of such Person; (iii) any entity for which a Person described in (ii) above acts in any such capacity.

"AGREEMENT" means this Asset Purchase Agreement, including the Exhibits and Schedules hereto each of which is incorporated herein by reference.

"ASSET PURCHASE PRICE" means the total consideration to be paid to Seller by Purchaser for the purchase of the Assets pursuant to this Agreement and which shall be paid in accordance with Section 1.02(a) of this Agreement.

"ASSETS" means all of the assets, properties and rights of Seller of every kind, nature, character and description, whether real, personal or mixed, whether tangible or intangible, whether accrued, contingent or otherwise (other than the Retained Assets) relating to or utilized in the Business, directly or indirectly, in whole or in part, in existence on the Closing Date whether or not carried on the books and records of Seller, and whether or not owned in the name of Seller or any Affiliate of Seller and wherever located, including but not limited to the following:

- (i) the Personal Property;
- (ii) Accounts Receivable;
- (iii) the Inventory;
- (iv) the Intellectual Property of Seller;
- (v) the Contracts of Seller;
- (vi) the Licenses of Seller;
- (vii) the Computer Software;
- (viii) the Databases;
- (ix) the Goshen Real Property;
- (x) the Goodwill of the Business, including, but not

limited to, goodwill associated with the trademarks, service marks, and tradenames and assumed names;

- (xi) all rights, choses in action and claims, Known or unknown matured or unmatured, accrued or contingent, against Third Parties;

(xii) all intangible personal property and assets other than the foregoing including, without limitation, franchises, guarantees, warranties, indemnities, certificates of authority and waivers;

(xiii) the customer lists, advertiser lists, subscriber lists, mailing lists, customer files, supplier files, advertiser files, subscriber files, sales agent files, credit files, and credit data relating to the Assets or the Business, all other files, records, drawings, catalogues, stationery, advertising materials and other documents (or copies thereof) related to the Assets or the Business and the use of any telephone numbers that are used in the operation of the Business; and

- (xiv) any other assets used in the Business and owned by

Seller.

"ASSUMED LIABILITIES" means (i) all obligations first arising after the Closing Date under or pursuant to Contracts of Seller related to the Business, listed on Exhibit X (as amended pursuant to Section 5.04(b)); and assigned to Purchaser pursuant to this Agreement; provided, however, the Assumed

Liabilities shall not include any Liabilities resulting from or arising out of any Default by Seller prior to the Closing Date under or with respect to any of such Contracts; (ii) Current Community Commitments (as defined herein); (iii) the obligation of Purchaser to provide coverage under the health plan that Purchaser makes available to its employees to Tom Merritt until the earlier of his sixty-fifth (65th) birthday or eighteen (18) months after the Closing Date; and (iv) the obligation of Purchaser to provide coverage at Purchaser's cost under the health plan that Purchaser makes available to its employees to Philip Guilfoos, provided that such coverage shall be available (A) only for the period for which Philip Guilfoos was eligible to elect COBRA coverage under Seller's health plan; (B) provided Philip Guilfoos makes or has made a proper election to elect COBRA coverage under Seller's health plan within the time periods specified under COBRA; and (C) provided that any amounts paid to or for the benefit of Philip Guilfoos by Seller or its insurer for health related matters shall be credited against the maximum lifetime benefits available to Philip Guilfoos under Purchaser's health plan.

"BALANCE SHEET" means collectively, the unaudited balance sheet of Seller as of November 30, 1998 and included in the Financial Statements.

"BALANCE SHEET DATE" means November 30, 1998.

"BUSINESS" means Seller's business of publishing the daily newspaper The Goshen News, and the weekly shopper, The Goshen Extra, and commercial printing under the name News Printing Company.

"CLOSING" means the consummation of the asset acquisitions and the other transactions contemplated by this Agreement.

"CLOSING DATE" means March 3, 1999 or such other date as the parties may agree, but with economic effect as of the close of business on February 28, 1999.

"CODE" means the Internal Revenue Code of 1986, as amended, and the rules and regulations promulgated thereunder.

"COMPUTER SOFTWARE" means all computer programs, materials, tapes, source and object codes, and all prior and proposed versions, releases, modifications, updates, upgrades and enhancements thereto, as well as all documentation and listings related thereto used in the Business.

"CONTRACT" means any written or oral contract, agreement, understanding, lease, usufruct, license, plan, instrument, commitment, restriction, arrangement, obligation, undertaking, practice or authorization of any kind or character or other document to which any Person is a party or that is binding on any Person or its securities, assets or business.

"CURRENT COMMUNITY COMMITMENTS" means those certain charitable commitments of Seller to The Boy's and Girl's Club of up to \$20,000 payable ratably over four years, The Goshen Chamber of Commerce of up to \$6,700 payable ratably over two years and Sponsorship of the Ride-A-Bike Event for the benefit of the Association of Disabled of Elkhart County with a cost of up to \$6,000.

"DATABASES" means databases in all forms, versions and media, together with prior and proposed updates, modifications and enhancements thereto, as well as all documentation and listings therefor used in the Business, other than Licenses.

"DEFAULT" means (1) a breach of, default under, or misrepresentation in or with respect to any Contract or License, (2) the occurrence of an event that with the passage of time or the giving of notice or both would constitute a breach of, default under, or misrepresentation in any Contract or License, or (3) the occurrence of an event that with or without the passage of time or the giving of notice or both would give rise to a right to terminate, change the terms of or renegotiate any Contract or License or to accelerate, increase, or impose any Liability under any Contract or License.

"EMPLOYEE BENEFIT PLAN" means collectively, each pension, retirement, profit-sharing, deferred compensation, stock option, employee stock ownership, severance pay, vacation, bonus or other incentive plan, any other written or unwritten employee program, arrangement, agreement or understanding, any medical, vision, dental or other health plan, any life insurance plan, or any other fringe benefit plan, currently or previously adopted, maintained by, sponsored in whole or in part by, or contributed to by Seller or any ERISA Affiliate thereof or under which Seller or any ERISA Affiliate thereof has any Liability for the benefit of employees, retirees, dependents, spouses, directors, or other beneficiaries, including but not limited to any such plan that could result in a Material Liability to Seller, under Title IV of ERISA or otherwise.

"ENVIRONMENTAL LITIGATION" means any Litigation in any court or before or by any Governmental Authority or private arbitrator, mediator or tribunal against Seller, the Business, the Gemmer Real Property or the Assets (including, without limitation, notice or other communication written or oral by any Person alleging potential liability for investigatory costs, cleanup costs, private or governmental response or remedial costs, natural resources damages, property damages, personal injuries, or penalties) arising out of, based upon, or resulting from (i) any Environmental Matter or (ii) any circumstances or state of facts forming the basis of any Liability, or alleged Liability under, or violation or alleged violation under, any Environmental Law.

"ENVIRONMENTAL LAWS" means all Laws relating to pollution or protection of human health or the environment (including, without limitation, ambient air, surface water, ground water, land surface or subsurface strata), including, without limitation, the Comprehensive Environmental Response Compensation and Liability Act, as amended, 42 U.S.C. 9601 et seq. ("CERCLA"), the Resource Conservation and Recovery Act, as amended, 42 U.S.C. 6901 et seq. ("RCRA"), and other Laws relating to emissions, discharges, releases or threatened releases of any Hazardous Substance, or otherwise relating to the manufacture, processing, distribution, use, treatment, storage, disposal, transport or handling of any Hazardous Substance.

"ENVIRONMENTAL MATTER" means any matter or circumstances related in any manner whatsoever to (i) the emission, discharge, disposal, release or threatened release of any Hazardous Substance into the environment, or (ii) the treatment, storage, recycling or other handling of any Hazardous Substance or (iii) the placement of structures or materials into waters of the United States, or (iv) the presence of any Hazardous Substance, including, but not limited to, asbestos, in any building, structure or workplace or on any of the Goshen Real Property or the Gemmer Real Property.

"ERISA" means Employee Retirement Income Security Act of 1974, as amended.

"ERISA AFFILIATE" means any member of the "controlled group" as defined in ERISA section 4001(a)(14) which includes, or at any time during the preceding 5 years included, the Seller.

"FINANCIAL STATEMENTS" means the unaudited balance sheets of Seller as of December 31, 1993, December 31, 1994, December 31, 1995, December 31, 1996, December 31, 1997 and November 30, 1998 and the related statements of income and cash flows for the periods then ended as compiled by McGladrey & Pullen, LLP thereon.

"GAAP" means generally accepted accounting principles consistently applied.

"GEMMER REAL PROPERTY" means collectively all the real property or interests therein owned, leased, occupied, used or controlled by Mrs. Gemmer and used in connection with the Business as of the date of this Agreement or acquired prior to the Closing Date, together with (i) all rights, easements, tenements, hereditaments, appurtenances, privileges, immunities, mineral rights and other benefits belonging or appertaining thereto that run with said real property and (ii) all right, title and interest, if any, of Mrs. Gemmer in and to (A) any land lying in the bed of any street, road or avenue, open or proposed, adjoining said real property, (B) any award made or to be made in lieu of the land described in the preceding clause (A), (C) any unpaid award for damage to said real property, and (D) all strips and rights-of-way abutting or adjoining said real property, if any. The Gemmer Real Property includes, without limitation, all buildings, structures, fixtures and other improvements located on the land described in the preceding sentence.

"GEMMER REAL PROPERTY PURCHASE PRICE" means the total consideration to be paid to Mrs. Gemmer by Purchaser for the purchase of the Gemmer Real Property pursuant to this Agreement and which shall be paid in accordance with Section 1.02(b) of this Agreement.

"GOSHEN REAL PROPERTY" means collectively all the real property or interests therein owned or controlled by Seller and used in connection with the Business as of the date of this Agreement or acquired prior to the Closing Date, together with (i) all rights, easements, tenements, hereditaments, appurtenances, privileges, immunities, mineral rights and other benefits belonging or appertaining thereto that run with said real property and (ii) all right, title and interest, if any, of Seller in and to (A) any land lying in the bed of any street, road or avenue, open or proposed, adjoining said real property, (B) any award made or to be made in lieu of the land described in the preceding clause (A), (C) any unpaid award for damage to said real property, and (D) all strips and rights-of-way abutting or adjoining said real property, if any. The Goshen Real Property includes, without limitation, all buildings, structures, fixtures and other improvements located on the land described in the preceding sentence.

"GOVERNMENTAL AUTHORITY" means any federal, state, county, local, foreign or other governmental or public agency, instrumentality, commission, authority, board or body.

"HAZARDOUS SUBSTANCE" means (i) any hazardous substance, hazardous material, hazardous waste, regulated substance or toxic substance (as those terms are defined by any applicable Environmental Laws) and (ii) any chemicals, pollutants, contaminants, petroleum, petroleum products, or oil.

"INTELLECTUAL PROPERTY" means Seller's (i) U.S. and foreign patents and pending patent applications together with any and all continuations, continuations in part, divisions, reissues, extensions and renewals thereof, (ii) trade secrets, know-how, inventions, designs, formulae and processes, whether trade secrets or not, (iii) trade names, trademarks, service marks, logos, assumed names, brand names and all registrations and applications therefor together with the goodwill of the business symbolized thereby, including but not limited to, the names "The Goshen News," "The Goshen Extra," "News

Printing Company" and any other names under which Seller has conducted its business or sold products or advertising at any time, (iv) copyrights and any registrations and applications therefor, (v) technology rights and licenses, and (vi) all other intellectual property owned by, registered in the name of, or used in the Business or in which Seller or its Business has any interest.

"INVENTORY" means all inventories of raw materials, supplies, purchased parts to be incorporated in finished products, operating parts and supplies, work-in-process, finished products, advertising materials, and other inventories.

"IRS" means the Internal Revenue Service of the United States of America.

"KNOWLEDGE" or "KNOWN" with respect to Seller or the Shareholder, means, collectively, those facts the Shareholder, John Gemmer, and Jim Young, after due inquiry knows or reasonably should have known.

"LAW" means any code, law, legal principal, order, ordinance, regulation, rule, or statute of any Governmental Authority.

"LIABILITY" means any direct or indirect, primary or secondary, liability, indebtedness, obligation, penalty, expense (including, without limitation, costs of investigation, collection and defense), claim, deficiency, guaranty or endorsement of or by any Person (other than endorsements of notes, bills and checks presented to banks for collection or deposit in the ordinary course of business) of any type, whether accrued, absolute, contingent, liquidated, unliquidated, matured, unmatured or otherwise.

"LICENSE" means any license, franchise, notice, permit, easement, right, certificate, authorization, approval or filing to which any Person is a party or that is or may be binding on any Person or its securities, property or business.

"LIEN" means any mortgage, lien, security interest, pledge, hypothecation, encumbrance, restriction, reservation, encroachment, infringement, easement, conditional sale agreement, title retention or other security arrangement, defect of title, adverse right or interest, charge or claim of any nature whatsoever of, on, or with respect to any property or property interest.

"LITIGATION" means any action, administrative or other proceeding, arbitration, cause of action, claim, complaint, criminal prosecution, inquiry, hearing, governmental or regulatory investigation, governmental or regulatory charge, litigation, notice (written or oral) by any Person alleging potential Liability or requesting information relating to or affecting Seller in connection with the Business, the Assets (including, without limitation, Contracts relating to Seller), the Gemmer Real Property or the transactions contemplated by this Agreement.

"LOSS" means any and all direct or indirect demands, claims, payments, obligations, recoveries, deficiencies, fines, penalties, interest, assessments, actions, causes of action, suits, losses, diminution in the value of assets, damages, punitive, exemplary or consequential damages (including, but not limited to, lost income and profits and interruptions of business), liabilities, costs, expenses (including without limitation, (i) interest, penalties and reasonable attorneys' fees and expenses, (ii) attorneys' fees and expenses necessary to enforce rights to indemnification hereunder, and (iii) consultants' fees and other costs of defense or investigation), and interest on any amount payable to a Third Party as a result of the

foregoing, whether accrued, absolute, contingent, Known, unknown, or otherwise as of the Closing Date or thereafter.

"MATERIAL" or "MATERIALLY" shall be determined in light of the facts and circumstances of the matter in question; provided, however, that any specific monetary amount cited in this Agreement shall be deemed to determine materiality in that instance.

"MATERIAL ADVERSE CHANGE" or "MATERIAL ADVERSE EFFECT" means (A) any Material adverse change in or effect on (i) the business, operations, assets, Liabilities, condition (financial or otherwise), results of operations, value or prospects of such Person, (ii) the ability of such Person to consummate the transactions contemplated by this Agreement or any of the Other Agreements to which it is a party, or (iii) the ability of such party to perform any of its obligations under this Agreement or any of the Other Agreements to which it is a party, if such change or effect Materially impairs the ability of such party to perform its obligations hereunder or thereunder, taken as a whole or (B) any adverse change in or effect on the assets, liabilities, results of operations of such Person that results in a Loss in excess of \$50,000.

"ORDER" means any decree, injunction, judgment, order, ruling, writ, quasi-judicial decision or award or administrative decision or award of any federal, state, local, foreign or other court, arbitrator, mediator, tribunal, administrative agency or Governmental Authority to which any Person is a party or that is or may be binding on any Person or its securities, assets or business.

"OTHER AGREEMENTS" means the agreements, documents, assignments and instruments to be executed and delivered by Seller, Mr. Gemmer or the Shareholder pursuant to this Agreement.

"PERMITTED LIENS" means (i) Liens for current real property Taxes not yet due and payable, (ii) Liens that do not affect the value or use of any parcel of the Goshen Real Property or any parcel of the Gemmer Real Property, and (iii), Liens, if any, relating to Purchaser's financing to which the Assets are contemplated to be subject at Closing.

"PERSON" means a natural person or any legal, commercial or governmental entity, such as, but not limited to, a business association, corporation, general partnership, joint venture, limited partnership, limited liability company, limited liability partnership, trust, or any person acting in a representative capacity.

"PERSONAL PROPERTY" means collectively all of the personal property or interests therein owned, leased, used or controlled by Seller, including, without limitation, machinery, tools, equipment (including office equipment and supplies), furniture, furnishings, fixtures, vehicles, leasehold improvements, all other tangible personal property other than Inventory (which is specifically excluded from the definition of Personal Property).

"PURCHASE PRICE" means the total consideration to be paid to Seller and to Mrs. Gemmer by Purchaser for the purchase of the Assets and the Gemmer Real Property pursuant to this Agreement and which shall be paid in accordance with Section 1.03 of this Agreement.

"RELATED PARTY" or "RELATED PERSON" means, with regard to any natural Person, his or her spouse, parent, sibling, child, aunt, uncle, niece, nephew, in-law, grandparent and grandchild (including by adoption) and any trustees or other fiduciaries for the benefit of such relatives.

"RETAINED ASSETS" means all cash on hand and in banks, cash investments, prepaid expenses (including the deposit made to PAGE under Seller's Contract with PAGE for newsprint and including cash in postage meter machine and postage accounts for business reply and second class postage), prepaid insurance premiums, cash value of life insurance policy on John Gemmer (all of the foregoing as of the close of business on February 28, 1999), 1999 GMC Yukon, the Computer Concepts personal computer with Pentium processor and Okidata printer 4W located at the home of John and Jane Gemmer, and four (4) season tickets to Notre Dame home football games.

"RETAINED LIABILITIES" means any Liability of Seller (or with respect to the Gemmer Real Property, Mrs. Gemmer) which is not an Assumed Liability, including, without limitation, the following:

- (i) all Accounts Payable;
- (ii) any Liabilities for any Taxes of Seller or the Shareholder;
- (iii) any Liabilities relating to current or former assets of Seller or the Shareholder not being acquired by Purchaser pursuant to this Agreement;
- (iv) any Contract of Seller not validly assigned to Purchaser;
- (v) any Liability incurred by Seller as a result of any Default by Seller under any provision of this Agreement or the Other Agreements;
- (vi) any Liability of Seller for severance payments or other severance obligations relating to any Person employed by Seller on or before the Closing Date;
- (vii) any Liability of Seller to pay bonuses or other compensation to Affiliates of Seller on account of the transactions contemplated by this Agreement;
- (viii) any Undisclosed Liability;
- (ix) any Liability of Seller, of any nature whatsoever, to any current or former shareholder or Affiliate of Seller;
- (x) any Liability (including without limitation, any Liability relating to any Litigation) relating to, based upon, or arising out of (A) the conduct of the Business or the ownership of the Assets prior to the Closing Date or (B) any act, omission, transaction, circumstance, sale of goods or services, state of facts or other condition that occurred or existed prior to the Closing Date, whether or not then Known, due or payable and whether or not disclosed in this Agreement or the Other Agreements;
- (xi) any Liability that Purchaser may incur in connection with any Litigation brought against Purchaser under the Worker Adjustment and Retraining Notification Act or any similar Law that relates to actions taken by Seller with regard to any employees or any site of employment;
- (xii) any Liability of Seller under or relating to any Employee Benefit Plan;
- (xiii) any Liability to or Lien of any Third Party pursuant to the bulk sales or fraudulent conveyance or other Laws of any jurisdiction that may be asserted against any of the Assets (whether asserted against Seller, the Shareholder, the Assets or Purchaser) or the Gemmer Real Property; and
- (xiv) any claim by any broker, finder or other Person employed or allegedly employed by Seller or the Shareholder in connection with the transactions contemplated by this Agreement.

"SUBSIDIARY" means any Person of which at least a majority of the securities or interests having by the terms thereof ordinary voting power to elect a majority of the board of directors or others performing similar functions with respect to such Person, is at the time directly or indirectly owned or controlled by another Person, or by any one or more Subsidiaries of such other Person, or by such other Person and one or more of its Subsidiaries or Affiliates.

"TAX" or "TAXES" means any federal, state, county, local, foreign and other taxes, assessments, charges, fees, and impositions for which Purchaser could have successor liability, including, without limitation, obligations to withhold such amounts and including interest and penalties thereon or with respect thereto, whether disputed or not.

"TAX RETURNS" means all returns, reports, filings, declarations and statements relating to Taxes that are required to be filed, recorded, or deposited with any Governmental Authority, including any attachment thereto or amendment thereof.

"THIRD PARTY" or "THIRD PARTIES" means any Person that is not Gray, Purchaser, Seller, Mr. Gemmer or the Shareholder or an Affiliate of Gray, Purchaser, Seller, Mr. Gemmer or the Shareholder.

"UNDISCLOSED LIABILITIES" means any Liability that is not fully reflected or reserved against in the Financial Statements or fully disclosed in a Schedule to this Agreement.

ARTICLE XI MISCELLANEOUS

11.01 NOTICES. All notices and other communications hereunder shall be deemed to have been given (i) on the date of receipt if delivered by hand, overnight courier service or if sent by facsimile, graphic scanning or other telegraphic communications equipment or (ii) on the date three (3) business days after depositing with the United States Postal Service if mailed by United States registered or certified mail, return receipt requested, first class postage prepaid and properly addressed. The address for such notices shall be to the address as set forth below each party's signature to this Agreement. Any party hereto may change its address specified for notices herein by designating a new address by notice in accordance with this Section 11.01.

11.02 ENTIRE AGREEMENT, MODIFICATIONS, AMENDMENTS AND WAIVERS. This Agreement, the Schedules, the Exhibits and the Other Agreements constitute the entire agreement with respect to the subject matter hereof and thereof and supersede all prior and contemporaneous agreements and understandings of the parties with respect thereto, including without limitation, that certain letter of intent from Gray dated February 1, 1999. No change, alternation, modification or addition to this Agreement shall be effective unless in writing and properly executed by the parties hereto.

11.03 SUCCESSORS AND ASSIGNS. This Agreement shall be binding upon and shall inure to the benefit of and be enforceable by the parties hereto, and their respective estates, successors, legal or personal representatives, heirs, distributees, designees and assigns, but no assignment shall relieve any party of the obligations hereunder. This Agreement or any portion hereof cannot be assigned by any party without the prior written consent of the other parties hereto; provided, however, that Gray and Purchaser may assign this Agreement to their lenders as collateral security.

11.04 TABLE OF CONTENTS; CAPTIONS; REFERENCES. The table of contents and the captions and other headings contained in this Agreement as to the contents of particular articles, sections, paragraphs or other subdivisions contained herein are inserted for convenience of reference only and are in no way to be construed as part of this Agreement or as limitations on the scope of the particular articles, sections, paragraphs or other subdivisions to which they refer and shall not affect the interpretation or meaning of this Agreement. Except as specifically provided herein, all references in this Agreement to "Section" or "Article" shall be deemed to be references to a Section or Article of this Agreement.

11.05 PRONOUNS. All pronouns used herein shall be deemed to refer to the masculine, feminine or neuter gender as the context requires.

11.06 GOVERNING LAW. This Agreement shall be controlled, construed and enforced in accordance with the substantive Laws of the State of Indiana, without respect to the Laws related to choice or conflicts of Laws.

11.07 SEVERABILITY. Should any term or provision of this Agreement be held to be invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions hereof shall not in any way be affected or impaired thereby.

11.08 REMEDIES NOT EXCLUSIVE. No remedy conferred by any of the specific provisions of this Agreement is intended to be, nor shall be, exclusive of any other remedy available at law, in equity or otherwise.

11.09 COUNTERPARTS AND INTERPRETATIONS. This Agreement may be executed in any number of counterparts, each of which shall be an original; but all of such counterparts shall together constitute one and the same instrument.

11.10 ATTORNEYS' FEES. In the event of any dispute between the parties hereto in connection with the enforcement or interpretation of any terms of this Agreement, the prevailing party in such dispute shall be entitled to recover his, her or its reasonable attorneys' fees and costs.

[SIGNATURES ON FOLLOWING PAGE]

IN WITNESS WHEREOF, Gray, Purchaser, Seller, Mrs. Gemmer and Mr. Gemmer have duly executed this Agreement under seal as of the date first above written.

GRAY:

Gray Communications Systems, Inc.

Attest:

By: /s/ Thomas J. Stultz

Title: Vice President
Address: 4370 Peachtree Road, NE
Atlanta, Georgia 30319-3099
Attention: Mr. James C. Ryan
Facsimile: 404-261-9607

Its: _____

[CORPORATE SEAL]

PURCHASER:

Gray Communications of Indiana, Inc.

Attest:

By: /s/ Thomas J. Stultz

Title: President
Address: 4370 Peachtree Road, NE
Atlanta, Georgia 30319-3099
Attention: Mr. James C. Ryan
Facsimile: 404-261-9607

Its: _____

[CORPORATE SEAL]

In the case of notice to Gray or Purchaser,
with a copy to:

Alston & Bird LLP
1201 West Peachtree Street
Atlanta, Georgia 30309-3424
Attention: Stephen A. Opler, Esq.
Facsimile: 404-881-4777

SELLER:

NEWS PRINTING COMPANY, INC.

Attest:

By: /s/ John W. Gemmer

Title: President

Address: 1905 Russet Avenue
Goshen, Indiana 46528

Facsimile: (219)

/s/ Jane H. Gemmer

Its: Secretary

[CORPORATE SEAL]

JOHN GEMMER:

/s/ John Gemmer (SEAL)

John Gemmer

Address: 1905 Russet Avenue
Goshen, Indiana 46528

Facsimile: (219)

THE SHAREHOLDER:

/s/ Jane H. Gemmer (SEAL)

Jane Gemmer

Address: 1905 Russet Avenue
Goshen, Indiana 46528

Facsimile: (219)

In the case of notice to Seller or either of
the Gemmers, with a copy to:

Herbert A. Spitzer, Jr., Esq.
Browne Spitzer Herriman Stephenson Holderead
& Musser
122 East Fourth Street
P. O. Box 927
Marion, Indiana 46952
Facsimile: 765-662-0574

LIST OF SUBSIDIARIES
 GRAY COMMUNICATIONS SYSTEMS INC.

EXHIBIT 21

Name of Subsidiary	Jurisdiction of Incorporation
The Albany Herald Publishing Co.	Georgia
The Rockdale Citizen Publishing Co.	Georgia
The Southwest Georgia Shopper, Inc.	Georgia
Gray Communications of Indiana, Inc.	Georgia
WEAU-TV, Inc.	Georgia
KOLN/KGIN, Inc.	Delaware
WVLT-TV, Inc.	Georgia
WRDW-TV, Inc.	Georgia
WITN-TV, Inc.	Georgia
Gray Kentucky Television, Inc.	Georgia
WEAU Licensee Corp.	Delaware
KOLN/KGIN License, Inc.	Delaware
WJHG Licensee Corp.	Delaware
WCTV Licensee Corp.	Delaware
WVLT Licensee Corp.	Delaware
WRDW Licensee Corp.	Delaware
WITN Licensee Corp.	Delaware
WKYT Licensee Corp.	Delaware
WYMT Licensee Corp.	Delaware
Gray Television Management, Inc.	Delaware
Gray MidAmerica Holdings, Inc.	Delaware
KTVE Inc.	Arkansas
Porta-Phone Licensee Corp.	Delaware
Gray Transportation Company, Inc.	Georgia
Gray Real Estate and Development Co.	Georgia
Gray Florida Holdings, Inc.	Georgia
Lynqx Communications, Inc.	Louisiana

CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in the Registration Statements (Form S-8 No. 33-84656 and Form S-8 No. 333-17773) pertaining to the Gray Communications Systems, Inc. Capital Accumulation Plan, in the Registration Statement (Form S-8 No. 333-15711) pertaining to the Gray Communications Systems, Inc. 1992 Long-Term Incentive Plan and in the Registration Statement (Form S-8 No. 333-42377) pertaining to the Gray Communications Systems, Inc. Non-Employee Directors Stock Option Plan of our report dated January 26, 1999, with respect to the consolidated financial statements and schedule of Gray Communications Systems, Inc. included in the Annual Report (Form 10-K) for the year ended December 31, 1998.

Ernst & Young LLP

Atlanta, Georgia
March 17, 1999

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE DECEMBER 31, 1998 AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF GRAY COMMUNICATION SYSTEMS, INC. AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

12-MOS	DEC-31-1998	
	JAN-01-1998	
	DEC-31-1998	1,886,723
		0
		24,071,119
		1,212,000
		1,191,284
		31,630,027
		80,234,968
		28,463,460
		468,974,422
21,381,069		270,225,255
0		13,500,000
		67,465,269
		45,737,601
468,974,422		128,889,522
		128,889,522
		0
		103,962,305
		241,522
		831,000
25,454,476		69,803,347
		28,143,981
41,659,366		0
0		0
		41,659,366
		3.38
		3.25

Includes pre-tax gain recognized on the exchange of WALB, one of the Company's NBC affiliated television stations, of approximately \$70.6 million.