SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

/X/ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED DECEMBER 31, 1996

/ / 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	58-0285030
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
126 N. WASHINGTON ST. ALBANY, GA	31701
(Address of principal executive offices)	(Zip code)

Registrant's telephone number, including area code: (912) 888-9390

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

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

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 __X__ 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 21, 1997: CLASS A AND CLASS B COMMON STOCK; NO PAR VALUE--$99,732,480

The number of shares outstanding of the registrant's classes of common stock as of March 21, 1997: CLASS A COMMON STOCK,; NO PAR VALUE--4,496,402 SHARES; CLASS B COMMON STOCK, NO PAR VALUE--3,332,382 SHARES

DOCUMENTS INCORPORATED BY REFERENCE: The registrant's definitive proxy statement for the annual meeting of shareholders to be filed with the Commission pursuant to Regulation 14A is incorporated by reference into part III herein.

PART I

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 KTVE SALE AND THE FIRST AMERICAN ACQUISITION (EACH AS DEFINED) ON AUGUST 20, 1996 AND SEPTEMBER 30, 1996, RESPECTIVELY. EXCEPT WITH RESPECT TO HISTORICAL FINANCIAL STATEMENTS AND UNLESS THE CONTEXT INDICATES OTHERWISE, THE FIRST AMERICAN BUSINESS (AS DEFINED) IS INCLUDED IN, AND KTVE (AS DEFINED) IS EXCLUDED FROM, THE DESCRIPTION OF THE COMPANY. UNLESS OTHERWISE INDICATED, THE INFORMATION HEREIN HAS BEEN ADJUSTED TO GIVE EFFECT TO A 3-FOR-2 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. UNLESS OTHERWISE INDICATED, ALL STATION RANK, IN-MARKET SHARE AND TELEVISION HOUSEHOLD DATA IN THIS REPORT ON FORM 10-K ARE DERIVED FROM THE NIELSEN STATION INDEX, VIEWERS IN PROFILE, DATED NOVEMBER 1996, AS PREPARED BY A.C. NIELSEN COMPANY ("NIELSEN").

GENERAL

The Company owns and operates seven network-affiliated television stations in medium-size markets in the southeastern United States ("Southeast"), six of which are ranked number one in their respective markets. Five of the stations are affiliated with the CBS Television Network, a division of CBS, Inc. ("CBS"), and two are affiliated with the NBC Television Network, a division of the National Broadcasting Company, Incorporated ("NBC"). In connection with the First American Acquisition (as defined and described below), the Company will be required under current regulations of the Federal Communications Commission (the "FCC") to divest its NBC affiliates in Albany, Georgia and Panama City, Florida. For a discussion of the Company's plans regarding such divestiture, see "Divestiture Requirements" and "The First American Acquisition, the KTVE Sale and the Financing." The Company also owns and operates three daily newspapers, two weekly, advertising only publications ("shoppers"), and a paging business, all located in the Southeast. The Company derives significant operating advantages and cost saving synergies through the size of its television station group and the regional focus of its television and publishing operations. These advantages and synergies include (i) sharing television production facilities, equipment and regionally oriented programming, (ii) the ability to purchase television programming for the group as a whole, (iii) negotiating network affiliation agreements on a group basis and (iv) purchasing newsprint and other supplies in bulk. In addition, the Company believes that its regional focus can provide advertisers with an efficient network through which to advertise in the fast-growing Southeast.

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. Since 1994, the Company's significant acquisitions have included five television stations and two newspapers, all located 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.

In January 1996, the Company acquired (the "Augusta Acquisition") WRDW-TV ("WRDW"), a CBS affiliate serving Augusta, Georgia (the "Augusta Business"). 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 broadcasting business and a paging business (collectively, the "First American Business"). Subsequent to the First American Acquisition, the Company rebranded WKXT with the call letters WVLT ("WVLT") as a component of its strategy to promote the station's upgraded news product. The Company believes that the First American Acquisition will further enhance the Company's position as a major regional television broadcaster and is highly attractive for a number of reasons, including (i) the stations' strategic fit in the Southeast, (ii) WCTV's leading station market position and WVLT's significant growth potential, (iii) strong station broadcast cash flows,

(iv) opportunities for revenue growth utilizing the Company's extensive management expertise with medium-size stations and (v) opportunities for synergies between WCTV and WVLT and the Company's existing stations with regard to revenue enhancement and cost controls.

In August 1996, the Company sold the assets of KTVE Inc. ("KTVE") serving Monroe, Louisiana/ El Dorado, Arkansas (the "KTVE Sale") for approximately $9.5 million in cash plus the amount of the accounts receivable on the date of the closing to the extent collected by the buyer ($829,000).

For the year ended December 31, 1996, on a pro forma basis, the Company had net revenues, Media Cash Flow (the sum of broadcast cash flow, publishing cash flow and paging cash flow), operating cash flow and net income of $97.5 million, $36.8 million, $33.6 million and $12,000, respectively. Net revenues, Media Cash Flow and operating cash flow on a pro forma basis for the year ended December 31, 1996 increased 66.4%, 136.5% and 152.4%, respectively, while net income decreased 98.7% from the historical amounts for the year ended December 31, 1995. The Company's pro forma net income for its television stations for the year ended December 31, 1996 was $2.6 million.

The Company currently has signed a letter of intent to purchase substantially all of the assets of WITN-TV, the NBC affiliate in the Greenville-Washington-New Bern, North Carolina market. The Company has also signed an agreement to purchase Gulflink Communications, Inc., which is in the transportable satellite uplink business, a business in which the Company is already engaged.

The following table sets forth certain information for each of the Company's television stations.

STATION	NETWORK AFFILIATION	MARKET	YEAR ACQUIRED	DMA RANK(1)	CHANNEL/ FREQUENCY	STATION RANK IN DMA(2)	IN-MARKET SHARE OF HOUSEHOLDS VIEWING TV	PRO FORMA YEAR ENDED DECEMBER 31, 1996 NET REVENUES (IN THOUSANDS)	PRO FORMA YEAR ENDED DECEMBER 31, 1996 OPERATING INCOME(6)
WVLT........	CBS	Knoxville, TN	1996	60	8/VHF	3	24 %	$ 9,274	$ 1,969
WKYT........	CBS	Lexington, KY	1994	71	27/UHF(3)	1	37	15,755	4,899
WYMT........	CBS	Hazard, KY	1994	71	57/UHF(3)	1(4)	27	4,287	1,028
WRDW........	CBS	Augusta, GA	1996	111	12/VHF	1	38	9,368	2,365
WCTV........	CBS	Tallahassee, FL/ Thomasville, GA	1996	114	6/VHF	1	63	13,199	3,745
WALB(5).....	NBC	Albany, GA	1954	150	10/VHF	1	80	10,611	5,534
WJHG(5).....	NBC	Panama City, FL	1960	159	7/VHF	1	55	5,216	1,080

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(1) Ranking of designated market area as defined by Nielsen ("DMA") served by a station among all DMAs is measured by the number of television households within the DMA based on the November 1996 Nielsen estimates.

(2) Represents station rank in DMA as determined by November 1996 Nielsen estimates of the number of television sets tuned to the Company's station as a percentage of the number of television sets in use in the market for the Sunday through Saturday 6 a.m. to 2 a.m. time period.

(3) All stations in the market are UHF stations.

(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 position in the 18-county trading area.

(5) The Company will be required under current FCC regulations to divest WALB and WJHG in connection with the First American Acquisition. For a discussion of the Company's plans, see "Divestiture Requirements" and "The First American Acquisition, the KTVE Sale and the Financing".

(6) Represents pro forma income before miscellaneous income (expense),

allocation of corporate overhead, interest expense and income taxes.

The following table sets forth certain information for each of the Company's publications:

PUBLICATION	COVERAGE AREA	CIRCULATION	PUBLISHED PER WEEK	PRO FORMA YEAR ENDED DECEMBER 31, 1996 NET REVENUES	OPERATING INCOME (LOSS)(1)
				(IN THOUSANDS)	
THE ALBANY HERALD......	25 counties in Southwest Georgia	33,000 daily 39,000 Sunday	7	$ 14,910	$ 4,186
THE ROCKDALE CITIZEN...	2 counties in Georgia (metro Atlanta)	10,000	6	3,675	202
GWINNETT DAILY POST....	1 county in Georgia (metro Atlanta)	13,000	5	2,832	(512)
SOUTHWEST GEORGIA SHOPPERS............	10 counties in Southwest Georgia and 10 counties in North Florida	52,000	1	1,428	(710)

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(1) Represents pro forma income before miscellaneous income (expense), allocation of corporate overhead, interest expense and income taxes.

The satellite broadcasting business and paging business had pro forma net revenues and operating income (income before miscellaneous income (expense), allocation of corporate overhead, interest expense and income taxes) on a pro forma basis of $7.0 million and $367,000, respectively, for the year ended December 31, 1996.

THE FIRST AMERICAN ACQUISITION, THE KTVE SALE AND THE FINANCING

On September 30, 1996, the Company completed the First American Acquisition and acquired WCTV and WVLT, a satellite broadcasting business and a paging business in the Southeast. The purchase price for the First American Acquisition was approximately $183.9 million, including fees, expenses and working capital and other adjustments.

The Company completed the KTVE Sale, 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 (approximately $829,000). The Company recognized a pre-tax gain of approximately $5.7 million and estimated income taxes of approximately $2.8 million. For the year ended December 31, 1996, KTVE had net revenues, Media Cash Flow and operating income (income before miscellaneous income (expense), allocation of corporate overhead, interest expense and income taxes) of $3.0 million, $748,000 and $463,000, respectively.

In addition to the consummation of the First American Acquisition, the Company implemented a financing plan (the "Financing") to increase liquidity and improve operating and financial flexibility. Pursuant to this financing plan, the Company (i) retired approximately $45.3 million principal amount of outstanding indebtedness under its former credit facility, together with accrued interest thereon, (ii) retired approximately $25.0 million aggregate principal amount of outstanding indebtedness under its senior note, together with accrued interest thereon and a prepayment fee, (iii) issued $10.0 million liquidation preference of its Series A Preferred Stock in exchange for the Company's 8% note owned by Bull Run Corporation, the Company's principal shareholder, with warrants to purchase up to 487,500 shares of Class A Common Stock (representing 9.8% of the Class A Common Stock issued and outstanding at December 31, 1996, after giving effect to the exercise of such warrants), (iv) issued to Bull Run Corporation, J. Mack Robinson (Chairman of the Board of Bull Run Corporation and interim President and Chief Executive Officer of the Company) and certain of his affiliates $10.0 million liquidation preference of its Series B Preferred Stock with warrants to purchase up to 500,000 shares of Class A Common Stock (representing 10.0% of the Class A Common Stock issued and outstanding at December 31, 1996, after giving effect to the exercise of such warrants) for cash proceeds of $10.0 million

and (v) entered into a new bank credit facility (the "Senior Credit Facility") which is comprised of a term loan of $71.5 million and a revolving credit facility of $53.5 million aggregating $125.0 million. The cash required for the consummation of the First American Acquisition, the repayment of indebtedness and related transaction costs, was provided by the net proceeds of an offering (the "Note Offering") of $160.0 million principal amount of the Company's Senior Subordinated Notes due 2006 (the "Notes"), and an offering (the "Stock Offering") of 3,500,000 shares of the Company's Class B Common Stock, no par value (the "Class B Common Stock"), the sale of the Series B Preferred Stock with warrants, the KTVE Sale and borrowings under the Senior Credit Facility.

DIVESTITURE REQUIREMENTS

In connection with the First American Acquisition, the Federal Communications Commission (the "FCC") ordered the Company to divest WJHG-TV and WALB-TV 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-TV would not be required. The FCC is not expected to complete its rulemaking on this subject until later in 1997. Accordingly, the Company will request, and expects to receive, an extension of the divestiture deadline pending the outcome of the rulemaking proceedings. In order to satisfy applicable FCC requirements with respect to WALB-TV, the Company, subject to FCC approval, intends to swap such assets for assets of one or more television stations of comparable value and with comparable broadcast cash flow in a transaction qualifying for deferred capital gains treatment under the "like-kind exchange" provision of Section 1031 of the Internal Revenue Code of 1986. If the Company is unable to enter into an agreement to effect such a swap by March 31, 1997, the Company will seek FCC approval to transfer the station to a trust with a view towards the trustee effecting a swap or sale of such assets. Under such trust arrangement, which would be subject to the approval of the FCC, the Company would be required to relinquish operating control of the station to a trustee while retaining the economic risks and benefits of ownership. If the Company or such trust is required to effect a sale of WALB-TV, the Company would incur a significant gain and related tax liability, the payment of which could have a material adverse effect on the Company's ability to acquire comparable assets without incurring additional indebtedness.

REGIONAL FOCUS

The Company's television stations and publications are all located in the fast-growing southeastern United States. The Company believes that this regional focus provides it with significant competitive advantages and has enabled it to develop an expertise in serving medium-size southeastern markets. As a result of its ownership of seven network-affiliated television stations in the Southeast, the Company believes that there are opportunities to sell advertising to certain sponsors on all or several of its stations as a single buy. Further, the Company's ownership of multiple publications in several adjacent southeastern communities provides an attractive and efficient channel through which to sell local print advertising. The Company capitalizes on its regional presence by transferring management personnel, equipment, programming and news content among its stations and publications.

OPERATING STRATEGY

Set forth below are the Company's operating strategies.

STRONG LOCAL PRESENCE. Each of the Company's television stations seeks to achieve a distinct local identity principally through the depth and focus of its local news programming and by targeting specific audience groups with special programs and marketing events. Each station's local news franchise is the core component of the Company's strategy to strengthen audience loyalty and increase revenues and Media Cash Flow for each station. Strong local news generates high viewership and results in higher ratings both for programs preceding and following the news. Six of the Company's stations offering

comprehensive local news coverage are the dominant local broadcast news source. The remaining station, WVLT in Knoxville, Tennessee, began offering significant local news coverage during February 1997.

Strong local news product also differentiates local broadcast stations from cable system competitors, which generally do not provide this service. The cost of producing local news programming generally is lower than other sources of programming and the amount of such local news programming can be increased or decreased on very short notice, providing the Company with greater programming flexibility.

The Company believes that its strong commitment to local broadcasting is integral to its ability to serve each of the communities in which it operates. In each of its markets, the Company develops information-oriented programming which expands the Company's hours of commercially valuable local programming with relatively small increases in operating expenses. In addition, each station utilizes special programming and marketing events, such as prime-time programming of local interest or sponsored community events, to strengthen community relations and increase advertising revenues. For example, certain of the Company's stations offer state governor call-in shows, local medical shows and cover local sporting events. The Company requires its senior staff to become actively involved in community affairs in an effort to better understand the issues in each community in which it operates.

A key component of the Company's publishing strategy is an emphasis on strong local content in its publications. Consequently, the Company focuses on local news, sports and lifestyle issues in order to foster reader loyalty with the objective of raising circulation and advertising rates. The Company's publications also sponsor community events with the objective of strengthening community relationships and building advertising revenues.

TARGETED MARKETING. The Company seeks to increase its advertising revenues and Media Cash Flow by expanding existing relationships with local and national advertisers and by attracting new advertisers through targeted marketing techniques and carefully tailored programming. The Company sells advertising locally through its sales employees and nationally through representative firms with which the Company enters into representation agreements. The Company works closely with advertisers to develop advertising campaigns that match specifically targeted audience segments with the advertisers' overall marketing strategies. With this information, the Company regularly refines its programming mix among network, syndicated and locally-produced shows in a focused effort to attract audiences with demographic characteristics desirable to advertisers.

The Company's success in increasing advertising revenues at both its stations and publications is also attributable, in part, to the implementation of training programs for its marketing consultants that focus on innovative sales techniques, such as events marketing and demographic-specific projects, that target specific advertisers. The Company trains its marketing consultants to sell not only advertising spots, but also non-traditional advertising such as billboards for sponsored sports events and weather forecasts within newscasts. In addition, performance based compensation arrangements and performance accountability systems have contributed to the Company's success in increasing local advertising revenues. The Company has also benefited from sharing ideas and information for increasing advertising revenues among its station group and publications. The Company's targeted marketing focus also includes the following key elements:

- NON-TRADITIONAL REVENUE SOURCES. The Company uses its stations' and publications' local promotional power in order to increase revenues from non-traditional sources by sponsoring and staging various special events, such as boat and recreational vehicle shows and golf shows. The Company derives revenues through the promotion, production and advertising sales generated by these events.

- VENDOR MARKETING. The Company engages in targeted vendor marketing whereby it contacts major vendors that supply a particular store or retail chain, and the management at a particular store or retail chain in order to arrange for the vendors to purchase local television advertising. The store or retail chain in turn agrees to purchase additional products from the vendor and also benefits from

the increased local television advertising presence. As a result of this vendor marketing, the Company's stations are able to sell advertising to promote a local retailer, which the local retailer would not normally have purchased for itself.

COST CONTROLS. Through its strategic planning and annual budgeting processes, the Company continually seeks to identify and implement cost savings opportunities at each of its stations and publications in order to increase Media Cash Flow. The Company closely monitors expenses incurred by each of its stations and publications and continually reviews their performance and productivity. Additionally, the Company seeks to minimize its use of outside firms and consultants by relying on its in-house production and design capability.

In order to further reduce costs, the Company capitalizes on its regional focus through its ability to produce programming at one station which can be used by many of the Company's other stations. Further, the size of the Company's station group and its ownership of multiple publications gives it the ability to negotiate favorable terms with programming syndicators, newsprint suppliers, national sales representatives and other vendors. Due to the proximity of the Company's operations, the Company's stations and publications share equipment, programming and management expertise. In addition, each station and publication reduces its corporate overhead costs by utilizing group benefits such as insurance and employee benefit plans provided by the Company.

ACQUISITION STRATEGY

The Company focuses on medium-size markets in the Southeast, because the Company believes these markets offer superior opportunities in terms of projected population and economic growth, leading to higher advertising and circulation revenues. The Company intends to continue to consider additional acquisitions of television stations and publications that serve these markets. The Company has focused on acquiring television stations where it believes there is potential for improvements in revenue share, audience share and cost control. In assessing acquisitions, the Company targets stations where it sees specific opportunities for revenue enhancement utilizing management's significant experience in local and national advertising sales and in operating similar stations in the Southeast. In addition, projections of growth in the particular market are taken into account. The Company also targets stations and publications for which it can control expenditures as it expands the operation's revenue base. Typical cost savings arise from (i) reducing staffing levels and sharing management with other stations and publications, (ii) utilizing in-house production and design expertise, (iii) substituting more cost effective employee benefit programs, (iv) reducing travel and other non-essential expenses and (v) optimizing the purchase of newsprint and other supplies. The Company currently has signed a letter of intent to purchase substantially all of the assets of WITN-TV, the NBC affiliate in the Greenville-Washington-New Bern, North Carolina market. The Company has also signed an agreement to purchase Gulflink Communications, Inc. which is in the transportable satellite uplink business, a business in which the Company is already engaged. Other than the proposed acquisitions, the Company does not presently have any agreements to acquire any television stations or publications. In appropriate circumstances, the Company will dispose of assets that it deems non-essential to its operating or growth strategy.

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) "GROSS REVENUES" REPRESENT ALL OPERATING REVENUES EXCLUDING BARTER REVENUES; (II) "MARKET REVENUES" REPRESENT GROSS ADVERTISING REVENUES, EXCLUDING BARTER REVENUES, FOR ALL COMMERCIAL TELEVISION STATIONS IN THE MARKET, AS REPORTED IN INVESTING IN TELEVISION 1996 MARKET REPORT, 4TH EDITION JULY 1996 RATINGS PUBLISHED BY BIA PUBLICATIONS, INC., EXCEPT FOR REVENUES IN WYMT-TV'S ("WYMT") 18-COUNTY TRADING AREA WHICH IS NOT SEPARATELY REPORTED IN SUCH BIA PUBLICATIONS, INC.'S REPORT; (III) "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; AND (IV) "STATION RANK IN DMA" IS BASED ON NIELSEN ESTIMATES FOR NOVEMBER OF EACH YEAR FOR THE PERIOD FROM 6 A.M. TO 2 A.M. SUNDAY THROUGH SATURDAY.

STATION	MARKET	DMA RANK(1)	COMMERCIAL STATIONS IN DMA(2)	STATION RANK IN DMA	TELEVISION HOUSEHOLDS(3)	MARKET REVENUES IN DMA FOR 1996	IN-MARKET SHARE OF HOUSEHOLDS VIEWING TV
						(IN THOUSANDS)	
WVLT..........................	Knoxville, TN	60	4	3	456,000	$60,500	24%
WKYT..........................	Lexington, KY	71	5	1	375,000	50,600	37
WYMT(4).......................	Hazard, KY	71	N/A	1	166,000	4,800	27
WRDW..........................	Augusta, GA	111	4	1	223,000	27,500	38
WCTV..........................	Tallahassee, FL/ Thomasville, GA	114	4	1	215,000	21,300	63
WALB(5).......................	Albany, GA	150	4	1	133,000	13,200	80
WJHG(5).......................	Panama City, FL	159	4	1	113,000	10,500	55

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(1) Ranking of DMA served by a station among all DMAs is measured by the number of television households based within the DMA on the November 1996 Nielsen estimates.

(2) Includes independent broadcasting stations.

(3) Based upon the approximate number of television households in the DMA as reported by the November 1996 Nielsen index.

(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) The Company was required to divest WALB and WJHG under current FCC regulations. For a discussion of the Company's plans, see "Divestiture Requirements" and "The First American Acquisition, the KTVE Sale and the Financing."

The following is a description of each of the Company's stations:

WVLT, THE CBS AFFILIATE IN KNOXVILLE, TENNESSEE

WVLT, acquired by the Company in September 1996, began operations in 1988. Knoxville, Tennessee is the 60th largest designated market area ("DMA") in the United States, with approximately 456,000 television households and a total population of approximately 1.2 million. Total Market Revenues in the Knoxville DMA in 1996 were approximately $60.5 million, an 8% increase over 1995. WVLT's pro forma gross revenues for each of the years ended December 31, 1996 and 1995 were approximately $10.6 million. WVLT's pro forma net loss (before the allocation of corporate and administrative expenses and after estimated income taxes computed at statutory rates) for the year ended December 31, 1996 was approximately $2.0 million, an increase of $120,000 from the pro forma net loss of $1.9 million for the prior

period. The Knoxville DMA has four licensed commercial television stations, all of which are affiliated with major networks. The Knoxville DMA also has two public broadcasting stations.

The following table sets forth Market Revenues for the Knoxville DMA and in-market share and ranking information for WVLT:

	YEAR ENDED DECEMBER 31		
	1996	1995	1994
	(DOLLARS IN THOUSANDS)		
Market Revenues in DMA	$ 60,500	$ 56,000	$ 55,000
Market Revenues growth over prior year	8%	2%	17%
In-market share of households viewing television	24%	22%	23%
Rank in market	3	3	3

MARKET DESCRIPTION. The Knoxville DMA, consisting of 24 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., Levi Strauss & Company, 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.

STATION PERFORMANCE. WVLT is a CBS affiliate and operates on channel 8. WVLT is one of three commercial VHF stations in the Knoxville DMA. Based on November 1996 Nielsen estimates, WVLT is ranked third in its market, with a 24% in-market share of households viewing television. WVLT can be viewed on 50 cable systems in its DMA. WVLT received 18% of the Knoxville DMA's Market Revenues in 1996.

WVLT produced only five hours of news per week prior to its acquisition by the Company in September 1996. The Company has implemented its operating strategy at WVLT by developing a comprehensive news department which currently produces 22 hours of news programming per week.

In addition to carrying network programming supplied by CBS, WVLT carries syndicated programming, including BAYWATCH, REGIS & KATHIE LEE, AMERICAN JOURNAL, ENTERTAINMENT TONIGHT, HARD COPY, THE ANDY GRIFFITH SHOW and ROLANDA.

WKYT, THE CBS AFFILIATE IN LEXINGTON, KENTUCKY

WKYT, acquired by the Company in September 1994, began operations in 1957. Lexington, Kentucky is the 71st largest DMA in the United States, with approximately 375,000 television households and a total population of approximately 1.0 million. Total Market Revenues in the Lexington DMA in 1996 were approximately $50.6 million, a 7% increase over 1995. WKYT's gross revenues for the year ended December 31, 1996 were approximately $17.8 million, an increase of 1.3% from the corresponding prior year. WKYT's net income before extraordinary charge (before the allocation of corporate and administrative expenses and after estimated income taxes computed at statutory rates) for the year ended December 31, 1996 was approximately $1.1 million, a decrease of 7.8% from the prior year. The Lexington DMA has five licensed commercial television stations, including WYMT, WKYT's sister station, all of which are affiliated with major networks. The Lexington DMA also has one public television station.

The following table sets forth Market Revenues for the Lexington DMA and in-market share and ranking information for WKYT:

	YEAR ENDED DECEMBER 31		
	1996	1995	1994
	(DOLLARS IN THOUSANDS)		
Market Revenues in DMA	$ 50,600	$ 47,500	$ 43,500
Market Revenues growth over prior year	7%	9%	14%
In-market share of households viewing television	37%	33%	37%
Rank in market	1	1	1

MARKET DESCRIPTION. The Lexington DMA consists of 37 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. and International Business Machines Corporation. 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. In addition, Lexington is an international center of the equine industry with the Kentucky Horse Park, a 1,000 acre park that attracts approximately 700,000 visitors annually.

STATION PERFORMANCE. WKYT, which operates on channel 27, is a CBS affiliate. WKYT can be viewed on 85 cable systems in its DMA and 51 cable systems outside its DMA. In 1996, WKYT celebrated its 21st consecutive year as the Lexington DMA's most watched local news program. Every broadcast of "27 Newsfirst" at 6 a.m., noon, 5 p.m., 5:30 p.m., 6 p.m. and 11 p.m. continues to be the number one rated program in its time period. WKYT's news programs also provide support and coverage of local events through public service announcements, on-air bulletin boards and special reports, such as CRIMESTOPPERS, 27 ON THE TOWN and HOMETOWN HEROES. Based on the November 1996 Nielsen index, WKYT is ranked number one in its market, with a 37% in-market share of households viewing television, which is nine percentage points ahead of the competition. WKYT received 35% of the Lexington DMA's Market Revenues in 1996. The station attributes its success to the experience of its senior management and local sales staff, which focus on developing strong relationships with local advertisers and devoting significant attention to the quality and content of WKYT's local news programming.

Since the 1970's, WKYT has been the flagship TV station for the University of Kentucky Sports Network, producing sports events and coaches' shows, such as the RICK PITINO COACH'S SHOW a half-hour show featuring the University of Kentucky basketball coach, that air on a 10-station network across Kentucky. Although WKYT focuses on the most popular University of Kentucky Wildcat sports, basketball and football, the station also features coverage of most area sporting events.

Cross-promotion and partnerships with radio, newspapers and businesses are a source of non-traditional revenue as well as a means of community involvement. WKYT is also party to the first joint venture in the Lexington market through its production of a 10 p.m. newscast for WDKY-TV, an affiliate of the Fox Broadcasting Company ("Fox"), in Lexington, which provides additional exposure for the station's news talent as well as a new source of revenue for WKYT.

Local programming produced by WKYT includes SCOTT'S PLACE, a weekly half-hour children's show which is carried on WJHG, WVLT, WYMT and WRDW, and DIRECTIONS and 27 NEWSMAKERS, two weekly public affairs programs dealing with minority and government and political issues, respectively. In addition, WKYT also carries programming provided by CBS and syndicated programming, including OPRAH!, JEOPARDY!, AMERICAN JOURNAL, DEEP SPACE NINE, UNTOUCHABLES, CROOK AND CHASE, DR QUINN MEDICINE WOMAN, WHEEL OF FORTUNE and THE ANDY GRIFFITH SHOW.

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 market area of the Lexington, Kentucky DMA with approximately 166,000 television households and a total population of approximately 463,000. WYMT is the only commercial television station in this 18-county trading area. Total Market Revenues in the 18-county trading area and WYMT's gross revenues in the 18-county trading area for the year ended December 31, 1996 were approximately $4.8 million, an increase of 17.1% from the prior year. WYMT's net income before extraordinary charge (before the allocation of corporate and administrative expenses and after estimated income taxes computed at statutory rates) for the year ended December 31, 1996 was approximately $166,000, an increase of 419% from the corresponding prior year. WYMT is the sister station of WKYT and shares many resources and simulcasts some local programming with WKYT.

The following table sets forth Market Revenues for the 18-county trading area and ranking information for WYMT (based upon its position in its 18-county trading area):

	YEAR ENDED DECEMBER 31		
	1996	1995	1994
	(DOLLARS IN THOUSANDS)		
Market Revenues in the 18-county trading area(1)	$ 4,800	$ 4,100	$ 3,800
Market Revenues growth over prior year	17%	9%	8%
In-market share of households viewing television	27%	24%	20%
Rank in market	1	1	1

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(1) Represents the gross revenues of WYMT, which is the only commercial television station in the 18-county trading area. The Company is unable to determine the amount of Market Revenue for the 18-county trading area which may be attributable to other television stations serving the Lexington DMA.

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 100 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. Approximately 11,000 manufacturing jobs exist in the Hazard trading area, most of which are concentrated in the Cumberland Valley area, a Kentucky Area Development District located in the southern portion of the 18-county trading area.

STATION PERFORMANCE. WYMT, which operates on channel 57, is a CBS affiliate. WYMT is ranked number one, based on November 1996 Nielsen estimates, in its trading area with a 27% in-market share of households viewing television, which is fifteen points ahead of the competition. WYMT's Mountain News at 6:30 a.m., 6 p.m. and 11 p.m. is ranked number one in the 18-county trading area. In addition to the Mountain News, WYMT simulcasts WKYT's 6 a.m., noon, 5 p.m. and 5:30 p.m. newscasts Monday through Friday, all of which rank number one in the 18-county trading area. WYMT includes local inserts into these simulcasted news programs in order to add an enhanced degree of local content. The station attributes its success to its position as the only commercial broadcaster in the 18-county trading area and to customer and community loyalty.

WYMT considers its news department to be a key component of its operations. The station is strategically positioned with a central newsroom in Hazard and two satellite news bureaus, one in Middlesboro, Kentucky (the Cumberland Valley) and one in Harold, Kentucky (the Big Sandy region). Microwave links to these regional news bureaus and to WYMT's sister station WKYT in Lexington, Kentucky, provide the news operation with the ability to report on, coordinate and share the latest news information and coverage throughout the mountain region and from Lexington.

In 1994, WYMT installed a state-of-the-art digital playback system in its master control room. This new system has allowed WYMT to adopt a computer-based playback format that has resulted in significant cost savings and an improved on-air appearance.

Strong local business and general community relations are an important component of WYMT's success. WYMT continues to develop partnerships with current and potential new clients through the production of various special annual events that also serve to strengthen community ties and enhance advertising revenue. Examples of such events include the Mountain Basketball Classic, the Charity Golf Classic and the Boat and RV Show.

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 223,000 television households and a total population of approximately 630,000. Total Market Revenues in the Augusta DMA in 1996 were approximately $27.5 million, a 7% increase over 1995. WRDW's pro forma gross revenues for the year ended December 31, 1996 were approximately $10.5 million, an increase of 9.3% from the corresponding prior year on a pro forma basis. WRDW's pro forma net income before extraordinary charge (before the allocation of corporate and administrative expenses and after estimated income taxes computed at statutory rates) for the year ended December 31, 1996 was approximately $74,000, as compared to a net loss of $386,000 for the prior year on a pro forma basis. 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.

The following table sets forth Market Revenues for the Augusta DMA and in-market share and ranking information for WRDW:

	YEAR ENDED DECEMBER 31		
	1996	1995	1994
	(DOLLARS IN THOUSANDS)		
Market Revenues in DMA	$ 27,500	$ 25,700	$ 24,700
Market Revenues growth over prior year	7%	4%	8%
In-market share of households viewing television	38%	36%	36%
Rank in market	1	1	1

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 41 years.

STATION PERFORMANCE. WRDW, which operates on channel 12, is a CBS affiliate. Based on November 1996 Nielsen estimates, WRDW is ranked number one in its market, with a 38% in-market share of

households viewing television, which is six share points ahead of the competition. WRDW also received 38% of the Augusta DMA's Market Revenues in 1996. WRDW can be viewed on all 29 cable systems in its DMA and nine cable systems outside of its DMA. Since 1992, WRDW has risen from a weak second-place ranking to the number one position. WRDW's weekday news programs at noon, 5 p.m., 6 p.m. and, 11 p.m., and five weekend slots are ranked number one in household rating and share. WRDW attributes its number one position in the market to its strong syndicated programming which leads into and out of its weekly news programs as well as its expanded local news coverage. WRDW was also the leader in prime time in the November 1996 Nielsen estimates. WRDW has positioned itself as "The News Station" in the DMA. In January 1996, WRDW began providing local cut-ins to the CNN news slots on cable, with all revenues from commercial inserts going to the station. In addition, as the local CBS affiliate in the DMA, WRDW produces local Masters programming, such as THE GREEN JACKET PROGRAM, a show hosted by Paul Davis that includes interviews with many golf celebrities.

In addition to 38.5 hours of local news the station also produces its own local programming, including TIME TO CARE, PRIMETIME SPECIALS and PAINE COLLEGE PRESENTS, a semi-monthly local public affairs show. In addition to carrying the programming provided by CBS, WRDW carries syndicated programming including: OPRAH!, INSIDE EDITION, LIVE WITH REGIS AND KATHY LEE, WHEEL OF FORTUNE and JEOPARDY!

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 215,000 television households and total population of approximately 602,000. Total Market Revenues in the Tallahassee/ Thomasville DMA in 1996 were approximately $21.3 million, a 7% increase over 1995. WCTV's pro forma gross revenues for the year ended December 31, 1996 were approximately $15.0 million, an increase of 12.6% from the corresponding prior period on a pro forma basis. WCTV's pro forma net loss (before the allocation of corporate and administrative expenses and after estimated income taxes computed at statutory rates) for the year ended December 31, 1996 was approximately $1.9 million, a decrease of $878,000 from the net loss of $2.8 million for the prior year on a pro forma basis. 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 station.

The following table sets forth Market Revenues in the Tallahassee/Thomasville DMA and in-market share and ranking information for WCTV:

	YEAR ENDED DECEMBER 31		
	1996	1995	1994
	(DOLLARS IN THOUSANDS)		
Market Revenues in DMA	$ 21,300	$ 19,900	$ 18,900
Market Revenues growth over prior year	7%	5%	10%
In-market share of households viewing television	63%	60%	65%
Rank in market	1	1	1

MARKET DESCRIPTION. The Tallahassee/Thomasville DMA, consisting of 18 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 and Valdosta State College. Florida State University is the largest university located in the DMA and its main campus is located within the city of Tallahassee.

STATION PERFORMANCE. WCTV is a CBS affiliate and operates on channel 6. WCTV is the only VHF station in the Tallahassee/Thomasville DMA. Based on November 1996 Nielsen estimates, WCTV is ranked number one in its market, with a 63% in-market share of households viewing television. WCTV can

be viewed on 47 cable systems in its DMA and 32 cable systems outside of its DMA. WCTV received 70% of the Tallahassee/Thomasville DMA's Market Revenues in 1996.

WCTV considers its news department to be a key component of its operations. The station attributes its successful news programming in part to its bureaus in Tallahassee, Valdosta and Thomasville and its news gathering vehicles. WCTV produces five news programs and two news cut-ins each day which total four hours of news per weekday. All news programs are closed-captioned. The station has the number one in-market share in news at 6 a.m., noon, 5:30 p.m., 6 p.m. and 11 p.m. on weekdays and 6 p.m. and 11 p.m. on weekends.

The station produces the BOBBY BOWDEN SHOW, a coach's show for Florida State University. In addition to carrying network programming supplied by CBS, WCTV carries syndicated programming including WHEEL OF FORTUNE, INSIDE EDITION, CROOK AND CHASE, JEOPARDY! and OPRAH!

WALB, THE NBC AFFILIATE IN ALBANY, GEORGIA

WALB was founded by the Company and began operations in 1954. Albany, Georgia is the 150th largest DMA in the United States with approximately 133,000 television households and a total population of approximately 383,000. Total Market Revenues in the Albany DMA in 1996 were approximately $13.2 million, a 8% increase over 1995. WALB's gross revenues for the year ended December 31, 1996 were approximately $11.8 million, an increase of 12.5% from the corresponding prior year. WALB's net income (before the allocation of corporate and administrative expenses and after estimated income taxes computed at statutory rates) for the year ended December 31, 1996 was approximately $3.4 million, an increase of 15.2% from the prior year. The Albany DMA has four licensed commercial television stations, three of which are affiliated with networks. The Albany DMA also has one public television station.

The following table sets forth Market Revenues for the Albany DMA and in-market share and ranking information for WALB:

	YEAR ENDED DECEMBER 31		
	1996	1995	1994
	(DOLLARS IN THOUSANDS)		
Market Revenues in DMA	$ 13,200	$ 12,200	$ 11,600
Market Revenues growth over prior year	8%	5%	17%
In-market share of households viewing television	80%	80%	80%
Rank in market	1	1	1

MARKET DESCRIPTION. The Albany DMA, consists of 17 counties in southwest Georgia. Albany, 170 miles south of Atlanta, is a regional center for manufacturing, agriculture, education, health care and military service. Leading employers in the area include: The Marine Corps Logistics Base, Phoebe Putney Memorial Hospital, The Proctor & Gamble Company, Miller Brewing Company, Cooper Tire & Rubber Company, Bob's Candies, Coats and Clark Inc., Merck & Co., Inc., MacGregor (USA) Inc. and M&M/ Mars. Albany State College and Darton College are also located within this area.

STATION PERFORMANCE. WALB, which operates on channel 10, is the only VHF station in the Albany DMA and is an NBC affiliate. Based on the November 1996 Nielsen estimates, WALB is ranked number one in its market, with an 80% in-market share of households viewing television, which is 62 share points ahead of the competition. WALB has the strongest signal in its DMA and can be viewed on all of the 26 cable systems in its DMA and 51 cable systems outside of its DMA. WALB received 89% of the Albany DMA's Market Revenues in 1996.

WALB is the number one ranked NBC affiliate in the United States and is ranked third in United States sign-on to sign-off among all networks (Source: Nov. '96 Nielsen/KATZ SNAP). WALB's TODAY IN

GEORGIA is the number one ranked early morning news program for an NBC affiliate in the United States and is ranked second in United States among all networks (Source: Nov. '96 Nielsen/KATZ SNAP). WALB is known as "South Georgia's Number One News Source." The station's news is its primary focus. WALB is the number one local news source in all of its time slots. WALB is the only station in its market with both electronic and satellite news gathering trucks, allowing the Company to provide live coverage. WALB broadcasts three hours and 20 minutes of news each weekday and two hours of news each weekend day.

The station produces its own local programming including TOWN AND COUNTRY, a live morning show that travels to various locations in Georgia and DIALOG, a weekly public affairs show focusing on minority issues. In addition to carrying programming supplied by NBC, WALB carries syndicated programming, including OPRAH!, ENTERTAINMENT TONIGHT, THE ANDY GRIFFITH SHOW, MONTEL WILLIAMS, RICKI LAKE and MARTIN.

The Company will be required to divest this station pursuant to existing FCC regulations. See "Divestiture Requirements" and "The First American Acquisition, the KTVE Sale and the Financing."

WJHG, THE NBC AFFILIATE IN PANAMA CITY, FLORIDA

WJHG, acquired by the Company in 1960, began operations in 1953. Panama City, Florida is the 159th largest DMA in the United States, with approximately 113,000 television households and a total population of approximately 308,000. Total Market Revenues in the Panama City DMA in 1996 were approximately $10.5 million, a 6% increase over 1995. WJHG's gross revenues for the year ended December 31, 1996 were approximately $5.9 million, an increase of 37.3% from the prior year. WJHG's net income (before the allocation of corporate and administrative expenses and after estimated income taxes computed at statutory rates) for the year ended December 31, 1996 was approximately $674,000, an increase of 229% from the prior year. The Panama City DMA has three licensed commercial television stations, all 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.

The following table sets forth Market Revenues for the Panama City DMA and in-market share and ranking information for WJHG:

	YEAR ENDED DECEMBER 31		
	1996	1995	1994
	(DOLLARS IN THOUSANDS)		
Market Revenues in DMA	$ 10,500	$ 9,900	$ 9,500
Market Revenues growth over prior year	6%	4%	22%
In-market share of households viewing television	55%	53%	46%
Rank in market	1	1	1

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

STATION PERFORMANCE. WJHG, which operates on channel 7, is an NBC affiliate. Based on November 1996 Nielsen estimates, WJHG is ranked number one in its market, with a 55% in-market share of households viewing television, which is 21 share points ahead of the competition. WJHG received 56% of the Panama City DMA's Market Revenues in 1996. WJHG can be viewed on all of the 36 cable systems in its DMA and on 29 cable systems outside its DMA.

WJHG dominates the Panama City market in all popular news time periods and has twice the audience viewership at 5 p.m. and 10 p.m. as does the competition. WJHG also has the number one news

ranking in its market at noon, 5:00 p.m., 6:00 p.m. and 10:00 p.m. on weekdays and 10:00 p.m. on weekends. WJHG's ratings success in its newscasts have allowed it to increase its overall unit rates and to negotiate for larger shares of advertisers' national budgets. WJHG considers its news department to be a key component of its operations and in 1994, devoted substantial resources to redesign the set, purchase new cameras, add new graphics, develop a new logo and reformat newscasts. As part of the continuing growth of its news product, WJHG recently introduced the first noon newscast in Panama City.

WJHG has also launched a direct mail campaign to attract new advertisers to the station. As a result of these factors, WJHG increased its gross revenues by 37.3% in 1996. WJHG is also focusing on other non-traditional revenue sources, such as developing health expositions, children's fairs and wedding shows.

In addition to carrying programming provided by NBC, WJHG carries syndicated programming, including WHEEL OF FORTUNE, JEOPARDY!, REAL TV, HARD COPY, MAURY POVICH, JENNY JONES and RICKI LAKE.

The Company will be required to divest this station pursuant to existing FCC regulations. See "Divestiture Requirements" and "The First American Acquisition, the KTVE Sale and the Financing."

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. The estimates are expressed in terms of the percentage of the total potential audience in the market viewing a station (the station's "rating") and of the percentage of households using television actually viewing the station (the station's "share"). Nielsen provides such data on the basis of total television households and selected demographic groupings in the market. Nielsen uses two methods of determining a station's ability to attract viewers. In larger geographic markets, ratings are determined by a combination of meters connected directly to selected television sets and weekly diaries of television viewing, while in smaller markets only weekly diaries are utilized. All of the Company's stations operate in markets where only weekly diaries are used.

Historically, three major broadcast networks, Capital Cities/ABC, Inc. ("ABC"), NBC and CBS, dominated broadcast television. In recent years, Fox has evolved into the fourth major network by establishing a network of independent stations whose operating characteristics are similar to the major network affiliate stations, although the number of hours of network programming produced by Fox for its affiliates is less than that of the three major networks. In addition, United Paramount Network ("UPN") and Warner Brothers Network ("WB") recently 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. Currently, UPN and WB provide 10 and 11.5 hours of programming per week to their affiliates, respectively.

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.

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 of 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.

Through the 1970s, network television broadcasting enjoyed virtual dominance in viewership and television advertising revenues, because network-affiliated stations competed only with each other in most local markets. Beginning in the 1980s, this level of dominance began to change as the FCC authorized more local stations and marketplace choices expanded with the growth of independent stations and cable television services. See "Federal Regulation of the Company's Business."

Cable television systems were first installed in significant numbers in the 1970s and were initially used to retransmit broadcast television programming to paying subscribers in areas with poor broadcast signal reception. In the aggregate, 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 increased during the 1970s and 1980s 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.

NEWSPAPER PUBLISHING

The Company owns and operates five publications comprising three newspapers and two shoppers, all located in the Southeast.

THE ALBANY HERALD

THE ALBANY HERALD, located in Albany, Georgia, is the only seven-day-a-week newspaper that serves southwestern Georgia. The Company changed THE ALBANY HERALD from an afternoon newspaper to a morning newspaper in 1993 and improved its graphics and layout. These changes enabled the Company to increase THE ALBANY HERALD'S newsstand and subscription prices as well as its advertising rates, resulting in an increase of revenues from $10.1 million in 1993 to $14.9 million in 1996, a 48% increase. The Company intends to increase selectively the price and advertising rates of THE ALBANY HERALD in the future. The Albany market has four other daily newspapers with a limited circulation and market area.

THE ALBANY HERALD also publishes three other weekly editions in Georgia, The Lee County Herald, The Worth County Herald and THE CALHOUN-CLAY HERALD, all of which provide regional news coverage. Other niche publications include FARM AND PLANTATION, an agricultural paper; a monthly coupon clipper and a quarterly, direct mail coupon book called CASH CUTTERS. 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 printing press is approximately 20 years old and is in good working order. THE ALBANY HERALD cross-merchandises its publications, thereby increasing total revenues with only a small increase in related expenditures. The Company also seeks to increase THE ALBANY HERALD'S circulation and revenues through its sponsorship of special events of local interest.

THE ROCKDALE CITIZEN and the GWINNETT DAILY POST

THE ROCKDALE CITIZEN is a six-day-a-week newspaper and the GWINNETT DAILY POST is a five-day-a-week newspaper 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 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 64,000 in 1996.

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. In September 1995, the Company increased the frequency of publication of the GWINNETT DAILY POST from three to five days per week in an effort to increase circulation. The GWINNETT DAILY POST announced on January 14, 1997 that subscribers to Northeast CableVision, a local cable provider, will receive subscriptions to the GWINNETT DAILY POST, including a new Sunday edition, and a new local Gwinnett TV news channel beginning, May 4, 1997. This alliance enables the GWINNETT DAILY POST to more than triple its paid circulation within growing Gwinnett County.

The Company's operating strategy with respect to THE ROCKDALE CITIZEN and the GWINNETT DAILY POST is to increase circulation by improving the print quality, increasing the local news content and increasing its telemarketing and promotional efforts. The Rockdale Citizen's printing press is approximately 24 years old and is in good working order. The Company hired a new president of publishing in February 1996 for THE ROCKDALE CITIZEN and the GWINNETT DAILY POST in order to implement its operating strategy at these newspapers.

SOUTHWEST GEORGIA SHOPPER

The Southwest Georgia Shopper, Inc., prints and distributes two shoppers, which are direct mailed and rack distributed throughout north Florida and southwest Georgia. The Company believes that print

quality is an important criterion to advertisers and consumers and, since their acquisition, the Company has accordingly improved the graphics of the shoppers.

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 one of the leading 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 large retailers and consolidations among large retail chains has recently resulted 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 and Valdosta, Georgia, in Dothan, Alabama, in Tallahassee and Panama City, Florida and in certain contiguous areas. In 1996 the population of this geographic coverage area was approximately 3.0 million. The Company's paging business had approximately 49,500 units in service, representing a penetration rate of approximately 1.6%.

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 73% are owned and maintained by subscribers ("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 focusing its marketing efforts on increasing its base of COAM users. The Company purchases all of its pagers from two suppliers, Panasonic and Motorola, with Motorola supplying a majority of such pagers. Due to the high demand from the Company's customers for Motorola pagers, the Company believes that its ability to offer Motorola pagers is important to its business.

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) increasing the number of business customers; (ii) expanding its resale program; (iii) increasing its retail operations; and (iv) increasing 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; (iii) independent sales agents who solicit customers for carriers and are compensated on a commission basis; and (iv) retail outlets that often sell a variety of merchandise, including pagers and other telecommunications equipment.

SATELLITE TRANSMISSION AND PRODUCTION SERVICES

The Company's satellite transmission and production services business operates broadcast and production services through mobile C-band and Ku-band transportable uplink units. Clients include The Walt Disney Company, The Golf Channel, USA Network, Turner Broadcasting System, NBC, CBS, ABC, PGA Tour Productions and The Children's Miracle Network. In January 1997, the Company agreed to acquire Gulflink Communications, Inc. ("Gulflink") of Baton Rouge, Louisiana. Gulflink's operations include nine transportable satellite uplink units, which, when combined with the Company's existing units, will comprise the largest fleet of transportable satellite uplink units in the United States. The transaction, which is expected to close in the second quarter of 1997, is subject to approval by certain regulatory agencies. Reference is made to Note C of Notes to Consolidated Financial Statements of the Company for additional information regarding business acquisitions.

ADDITIONAL INFORMATION ON BUSINESS SEGMENTS

Reference is made to Note K 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. The broadcasting industry is faced continually with technological change and innovation, the possible rise in popularity of

competing entertainment and communications media and governmental restrictions or actions of federal regulatory bodies, including the FCC and the Federal Trade Commission, any of which could have a material effect on the Company's operations. In addition, since early 1994, there have been a number of network affiliation changes in many of the top 100 television markets. As a result, the major networks have sought longer terms in their affiliation agreements with local stations and generally have increased the compensation payable to the local stations in return for such longer term agreements. During the same time period, the rate of change of ownership of local television stations has increased.

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 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. Through the 1970s, television broadcasting enjoyed virtual dominance in viewership and television advertising revenues because network-affiliated stations competed only with each other in most local markets. Although cable television systems initially retransmitted broadcast television programming to paying subscribers in areas with poor broadcast signal reception, significant increases in cable television penetration in areas that did not have signal reception problems occurred throughout the 1970s and 1980s. As the technology of satellite program delivery to cable systems advanced in the late 1970s, development of programming for cable television accelerated dramatically, resulting in the emergence of multiple, national-scale program alternatives and the rapid expansion of cable television and higher subscriber growth rates. Historically, cable operators have not sought to compete with broadcast stations for a share of the local news audience. Recently, however, certain cable operators have elected to 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 (including video cassette recorder and playback systems, video discs and television game devices), "wireless cable" services, satellite master antenna television systems, low power television stations, television translator stations and, more recently, direct broadcast satellite ("DBS") video distribution services, which transmit programming directly to homes equipped with special receiving antennas, and video signals delivered over telephone lines. Public broadcasting outlets in most communities compete with commercial television stations for audience but not for advertising dollars, although this may change as the United States Congress considers alternative means for the support of public television.

Further advances in technology may increase competition for household audiences and advertisers. Video compression techniques are expected to reduce the bandwidth required for television signal transmission. These compression techniques, as well as other technological developments, are applicable to all video delivery systems, including over-the-air broadcasting, and have the potential to provide vastly

expanded programming to highly targeted audiences. Reduction in the cost of creating additional channel capacity could lower entry barriers for new channels and encourage the development of increasingly specialized "niche" programming. This ability to reach very narrowly defined audiences is expected to alter the competitive dynamics for advertising expenditures. In addition, competition in the television industry in the future may come from interactive video and information and data services that may be delivered by commercial television stations, cable television, DBS, multipoint distribution systems, multichannel multipoint distribution systems or other video delivery systems. The Company is unable to predict the effect that these or other technological changes will have on the broadcast television industry or the future results of the Company's operations.

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 ROSEANNE) 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 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. Typically, independent stations achieve a greater proportion of the television market advertising revenues than network affiliated stations relative to their share of the market's audience, because independent stations have greater amounts of available advertising time. The stations also compete for advertising revenues 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.

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. Many of the Company's newspaper competitors are significantly larger than the Company. The Company attempts to differentiate its publications from other newspapers by focusing on local news and local sports coverage in order to compete with its larger competitors. 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. Future technological developments in the wireless communications industry and enhancements of current technology, however, 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.

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 agreements for WALB and WJHG are renewed automatically every five years on September 1 unless the station notifies NBC otherwise. The CBS affiliation agreements for WKYT, WYMT, WRDW, WCTV and WVLT expire on December 31, 2004, December 31, 2004, March 31, 2005, December 31, 1999, and December 31, 1999, respectively.

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 five years (recently extended to eight years by the Telecommunications Act) 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 WALB, WJHG, WKYT, WYMT, WRDW, WCTV and WVLT are effective until April 1, 2005, April 1, 2005, August 1, 1997, August 1, 1997, April 1, 2005, April 1, 2005 and August 1, 1997, 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 1997 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 its rules to permit cross-ownership interests between a broadcast network and a 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, uninsulated 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 shareholder exception (pursuant to which voting interests in excess of five percent are not considered cognizable if a single majority shareholder 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. It is unlikely that this inquiry will be concluded until late 1997 at the earliest 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 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.

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 (beer and wine, for example), the rules and policies to be applied in enforcing the FCC's equal employment opportunity regulations, reinstitution of the Fairness Doctrine (which requires broadcasters airing programming concerning controversial issues of public importance to afford a reasonable opportunity for the expression of contrasting viewpoints), 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 Supreme Court decision has cast doubt upon the continued validity of many of the congressional programs designed to increase minority ownership of mass media facilities.

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 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 "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.

On April 8, 1993, a special three-judge panel of the U.S. District Court for the District of Columbia upheld the constitutionality of the "must carry" provisions of the 1992 Cable Act. However, on June 27, 1994, the United States Supreme Court in a 5-4 decision vacated the lower court's judgment and remanded the case to the District Court for further proceedings. Although the Supreme Court found the "must carry" rules to be content-neutral and supported by legitimate governmental interests under appropriate constitutional tests, it also found that genuine issues of material fact still remained that must be resolved in a more detailed evidentiary record. On December 12, 1995, the United States District Court for the District of Columbia upheld the "must carry" requirements compelling cable systems to carry broadcast signals. The cable industry appealed this decision to the Supreme Court, which is expected to rule on the constitutionality of the 1992 Cable Acts's must carry provisions by June 1997. In the meantime, however, the FCC's "must carry" regulations implementing the 1992 Cable Act remain in effect.

The 1992 Cable Act also codified the FCC's basic equal employment opportunity ("EEO") rules and the use of certain EEO reporting forms currently filed by television broadcast stations. In addition, pursuant to the 1992 Cable Act's requirements, the FCC has adopted new rules providing for a review of the EEO performance of each television station at the mid-point of its license term (in addition to renewal time). Such a review will give the FCC an opportunity to evaluate whether the licensee is in compliance with the FCC's processing criteria and notify the licensee of any deficiency in its employment profile. Among the other rulemaking proceedings conducted by the FCC to implement provisions of the 1992 Cable Act have been those concerning cable rate regulation, cable technical standards, cable multiple ownership limits and competitive access to programming.

Among other provisions, the Telecommunications Act redefines the term "cable system" as "a facility that serves subscribers without using any public right of way." It eliminates a single subscriber's ability to initiate a rate complaint proceeding at the FCC and allows a cable operator to move any service off the basic tier in its discretion, other than local broadcast signals and access channels required to be carried on the basic tier.

ADVANCED TELEVISION SERVICE. The FCC has proposed the adoption of rules for implementing advanced television ("ATV") service in the United States. Implementation of digital ATV 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 ATV service rules and a table of ATV 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 ATV, 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. The FCC also stated that the NPRM would be followed by two additional proceedings and that a Final Report and Order which will launch the ATV system is anticipated later in 1997.

The Telecommunications Act directs the FCC, if it issues licenses for ATV, 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. It is expected that the FCC will assign all existing television licensees a second channel on which to provide ATV 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 ATV 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 ATV 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 ATV 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 ATV. Although the Company believes the FCC will authorize ATV in the United States, the Company cannot predict precisely when or under what conditions such authorization might be given, when NTSC operations must cease, or the overall effect the transition to ATV 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.

PAGING

FEDERAL REGULATION. The Company's paging 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 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 currently has 28 FCC licenses for its paging business. Four of such licenses will expire in 1997, 12 will expire in 1999, four will expire in 2000, two will expire in 2001, two will expire in 2006 and four will expire in 2007. In the past, paging license renewal applications generally have been granted by the FCC in most cases upon a demonstration of compliance with FCC regulations and adequate service to the public. 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 operation of licensed facilities or to revoke or modify licenses. None of the Company's licenses has ever been revoked or modified involuntarily.

The FCC has enacted regulations regarding auctions for the award of radio spectrum licenses. Pursuant to such rules, the FCC at any time may require auctions for new or existing services prior to the award of any license. Accordingly, there can be no assurance that the Company will be able to procure additional frequencies, or to expand existing paging networks operating on frequencies for which the Company is currently licensed into new geographical areas. In March 1994, the FCC adopted rules pursuant to which the FCC will utilize competitive bidding to select Commercial Mobile Radio Service ("CMRS") licensees when more than one entity has filed a timely application for the same license. These

competitive bidding rules could require that FCC licensees make significant investments in order to obtain spectrum. While the FCC has not yet applied these rules to paging licenses, it could do so at any time. The Company also believes that this rule change may increase the number of competitors which have significant financial resources and may provide an added incentive to build out their systems quickly.

On February 8, 1996, the FCC announced a temporary cessation in the acceptance of applications for new paging stations, and placed certain restrictions on the extent to which current licensees can expand into new territories on an existing channel. The FCC has initiated an expedited comment period in which it will consider whether these interim processing procedures should be relaxed. The FCC is also considering whether CMRS operators should be obligated to interconnect their systems with others and be prohibited from placing restrictions on the resale of their services.

The FCC recently adopted rules generally revising the classification of the services offered by paging companies. Traditionally, paging companies have been classified either as Private Common Carriers or Private Carrier Paging Operators or as resellers. Pursuant to the FCC's recently adopted rules, which aim to reduce the disparities in the regulatory treatment of similar mobile services, the Company's paging services are or will be classified as CMRS. The Company believes that such parity will remove certain regulatory advantages which private carrier paging competitors have enjoyed under the previous classification scheme, although private carrier paging companies will be subject to a transition period through August 1996 before these new rules are applicable.

The Telecommunications Act may affect the Company's paging business. Some aspects of the new statute could have beneficial effect on the Company's paging business. For example, proposed federal guidelines regarding antenna siting issues may remove local and state barriers to the construction of communications facilities, and efforts to increase competition in the local exchange and interexchange industries may reduce the cost to the Company of acquiring necessary communications services and facilities. On the other hand, some provisions relating to common carrier interconnection, telephone number portability, equal access, the assignment of new area codes, resale requirements and auction authority may place additional burdens upon the Company or subject the Company to increased competition.

In addition to regulation by the FCC, paging systems are subject to certain Federal Aviation Administration regulations with respect to the height, location, construction, marking and lighting of towers and antennas.

STATE REGULATION. As a result of the enactment by Congress of the Omnibus Budget Reconciliation Act of 1993, the authority of the states to regulate the Company's paging operations was severely curtailed as of August 1994. At this time the Company is not aware of any proposed state legislation or regulations which would have a material adverse impact on the Company's paging business. There can be no assurance, however, that such legislation or regulations will not be passed in the future.

EMPLOYEES

As of March 5, 1997, the Company had 890 full-time employees, of which 580 were employees of the Company's stations, 258 were employees of the Company's publications, 41 were employees of the Company's paging operations and 11 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 126 North Washington Street, Albany, Georgia.

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	--
Hazard, KY	Transmission tower site	Leased	--	June 2015
Hazard, KY	Transmitter building and improvements	Owned	1,248 sq. ft.	--
WRDW				
North Augusta, SC	Office and studio	Owned	17,000 sq. ft.	--
	Transmission tower site	Owned	143 acres	--
WALB				
Albany, GA	Office and studio	Owned	13,700 sq. ft.	--
Albany, GA	Transmission tower site	Owned	21 acres	--
WJHG				
Panama City, FL	Office and studio	Owned	14,000 sq. ft.	--
Youngstown, FL	Transmission tower site	Owned	17 acres	--
WVLT				
Knoxville, TN	Office and studio	Owned	18,300 sq. ft.	--
Knoxville, TN	Transmission tower site	Leased	Tower space	Dec. 1998
WCTV				
Tallahassee, FL	Office and studio	Leased	22,000 sq. ft.	Dec. 2014
Metcalf, GA	Transmission tower site	Leased	182 acres	Nov. 1999

PUBLISHING

COMPANY/PROPERTY LOCATION	USE	OWNED OR LEASED	APPROXIMATE SIZE	EXPIRATION OF LEASE
The Albany Herald Publishing Company, Inc.	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, printing press and production facility 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 and production facilities of the GWINNETT DAILY POST	Leased	11,000 sq. ft.	Nov. 1997
The Southwest Georgia Shoppers, Inc. Tallahassee, FL	Offices	Owned	5,500 sq. ft.	--

PAGING

PROPERTY LOCATION	USE	OWNED OR LEASED	APPROXIMATE SIZE	EXPIRATION OF LEASE
Albany GA	Office	Leased	800 sq. ft.	March 1997
Columbus, GA	Office	Leased	1,000 sq. ft.	July 1997
Dothan, AL	Office	Leased	800 sq. ft.	Feb. 1998
Macon, GA	Office	Leased	1,260 sq. ft.	July 1998
Tallahassee, FL	Office	Leased	2,400 sq. ft.	Month to month
Thomasville, GA	Office	Leased	300 sq. ft.	Month to month
Valdosta, GA	Office	Leased	400 sq. ft.	May 1997
Panama City, FL	Office	Leased	1,050 sq. ft.	Jan. 1998

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.

EXECUTIVE OFFICERS

Set forth below is certain information with respect to the executive officers of the Company:

J. Mack Robinson, age 73, was appointed interim President and Chief Executive Officer of the Company in September 1996. Mr. Robinson has been Chairman of the Board of Bull Run Corporation since March 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 1974 until 1995 and Chairman of the Board of Atlantic American Corporation since 1974.

Robert S. Prather, age 52, was appointed interim Executive Vice President-Acquisitions of the Company in September 1996. He has been President and Chief Executive Officer of Bull Run Corporation since July 1992. Prior to that time he was President and Chief Financial Officer of Phoenix Corporation, a steel service center.

Robert A. Beizer, age 57, was appointed Vice President for Law and Development and Secretary of the Company in February 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 at the law firm of Sidley & Austin and was head of its communications practice group in Washington, D.C. He is a past president of the Federal Communications Bar Association and a member of the ABA House of Delegates.

Joseph A. Carriere, age 63, was appointed Vice President-Television of the Company in September 1996. Prior to that appointment, he served as Vice President-Corporate Sales from February 1996. He was appointed President and General Manager of WVLT-TV, Inc., a subsidiary of the Company, in September 1996. From November 1994 until his appointment as Vice President-Corporate Sales, he served as President and General Manager of KTVE Inc., a subsidiary of the Company. Prior to joining the Company in 1994, Mr. Carriere was employed by Withers Broadcasting Company of Colorado as General Manager from 1991 to 1994. He has served as a past chairman of the CBS Affiliates Advisory Board and as a member of the Television Board of Directors of the National Association of Broadcasters.

William A. Fielder, III, age 38, was appointed Controller of the Company in April 1991 and appointed Vice President and Chief Financial Officer of the Company in August 1993. Prior to being appointed as Controller in 1991, he was employed by Ernst & Young LLP, the independent auditors for the Company.

Thomas J. Stultz, age 45, was appointed Vice President of the Company and President of the Company's publishing division in February 1996. Prior to joining the Company, he was employed by Multimedia Newspaper Company, where he served as Vice President from 1990 to 1995.

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 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 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 Company's Class A and Class B Common Stock as well as the cash dividends declared. The high and low sale prices of the Class A Common Stock (restated to give effect to the three-for-two stock split) are as reported by the NYSE for the period after June 30, 1995 and, prior to such time, the high and low bid quotations are as reported on the NASDAQ Small Cap Market. The high and low sales prices of the Class B Common Stock is as reported by the NYSE since the date of its initial issuance.

	CLASS A COMMON STOCK			CLASS B COMMON STOCK		
	HIGH	LOW	CASH DIVIDENDS DECLARED PER SHARE	HIGH	LOW	CASH DIVIDENDS DECLARED PER SHARE
FISCAL 1996						
First Quarter	$ 20.38	$ 15.75	$ .02	--	--	--
Second Quarter	23.25	18.75	.02	--	--	--
Third Quarter	23.13	20.25	.02	$ 20.50	$ 18.00	--
Fourth Quarter	21.25	17.50	.02	19.50	14.88	$ .02
FISCAL 1995						
First Quarter	$ 14.50	$ 10.67	$ .02	--	--	--
Second Quarter	19.33	14.50	.02	--	--	--
Third Quarter	24.33	16.75	.02	--	--	--
Fourth Quarter	22.38	16.38	.02	--	--	--

As of March 21, 1997, the Company had 4,496,402 outstanding shares of Class A Common Stock held by 1,412 shareholders and 3,332,382 outstanding shares of Class B Common Stock held by 1,190 shareholders. The number of shareholders includes shareholders 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 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 materially limit its ability to pay dividends at the recent quarterly rate of $.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.

On January 3, 1996, Bull Run Corporation purchased for $10.0 million from the Company an 8% subordinated note in the principal amount of $10.0 million due in January 2005 and warrants to purchase 487,500 shares of Class A Common Stock at $17.88 per share. On September 24, 1996, the 8% subordinated note was retired and the Company issued to Bull Run Corporation, in exchange therefore, 1,000 shares of Series A Preferred Stock. 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, cumulatve cash dividends at an annual rate of $800 per share. On September 24, 1996, the Company issued to Bull Run Corporation and to J. Mack Robinson, Chairman of the Board of Bull Run Corporation and interim President and Chief Executive Officer of the Company, and certain of his affiliates, for $10.0 million, 1,000 shares of Series B Preferred Stock with warrants to purchase 500,000 shares of Class A Common Stock at $24.00 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 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. On September 2, 1994, the Company sold to one institutional investor its note in the principal amount of $25.0 million due 2003 and received $25.0 million in cash. The Company believes that the foregoing transactions were exempt from the registration provisions of the Securities Act of 1933 pursuant to Section 4(2) of such Act.

ITEM 6. SELECTED FINANCIAL DATA

SUMMARY HISTORICAL FINANCIAL DATA

GRAY COMMUNICATIONS SYSTEMS, INC. AND SUBSIDIARIES

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, 1996 are derived from the Audited Consolidated Financial Statements of the Company and its subsidiaries. Also see pro forma data for the First American Acquisition and the Augusta Acquisition in Note C and the KTVE Sale in Note B to the Company's Audited Consolidated Financial Statements included elsewhere herein. See Item 8.

	YEAR ENDED DECEMBER 31,				
	1996(1)	1995(2)	1994(2)	1993	1992
	(IN THOUSANDS EXCEPT PER SHARE DATA)				
STATEMENTS OF INCOME DATA:					
Revenues	$ 79,305	$ 58,616	$ 36,518	$ 25,113	$ 24,643
Operating income	16,079	6,860	6,276	3,531	4,270
Income from continuing operations	5,678	931	2,766	1,680	396
Income from continuing operations available to common stockholders	5,302	931	2,766	1,680	396
Income from continuing operations per common share (3)	.94	.21	.59	.36	.09
Cash dividends per common share (3)	$ .08	$ .08	$ .07	$ .07	$ 07
BALANCE SHEET DATA (AT END OF PERIOD):					
Total Assets	$ 298,664	$ 78,240	$ 68,789	$ 21,372	$ 24,173
Long-term Debt	$ 173,368	$ 54,324	$ 52,940	$ 7,759	$ 12,412

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(1) 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 dates. See Notes B and C to the Company's Audited Consolidated Financial Statements included elsewhere herein.

(2) The financial data reflects the operating results of various acquisitions completed in 1994 and 1995 as of their respective acquisition dates. See Note C to the Company's Audited Consolidated Financial Statements included elsewhere herein.

(3) 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. Income from continuing operations per common share is based on the weighted average common and common equivalent shares outstanding during each period determined using the treasury stock method. All applicable share and per share data have been adjusted to give effect to the stock split.

BROADCASTING AND PAGING OPERATIONS OF JOHN H. PHIPPS, INC.

Set forth below are certain selected historical financial data of the Broadcasting and Paging Operations of John H. Phipps, Inc. (referred to herein as the "First American Business"), which was acquired by the Company in September 1996. This information should be read in conjunction with the Audited Financial Statements of the Broadcasting and Paging Operations of John H. Phipps, Inc. 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 First American Business." The selected financial data for, and as of the end of, the nine months ended September 30, 1996 and each of the years in the three-year period ended December 31, 1995 are derived from the audited financial statements of the First American Business. The selected financial data for, and as of the end of, the year ended December 31, 1992 is derived from the unaudited accounting records of the First American Business. See Item 8.

	NINE MONTHS ENDED SEPTEMBER 30,	YEAR ENDED DECEMBER 31,			
	1996(3)	1995	1994	1993	1992(1)
	(IN THOUSANDS)				
STATEMENTS OF OPERATIONS DATA:					
Revenues	$ 21,203	$ 27,321	$ 25,801	$ 23,248	$ 18,169
Operating income (loss)	(1,703)	7,382	7,668	4,687	5,646
Income (loss) from continuing operations before minority interests	(1,925)	6,896	7,854	4,071	5,212
Income (loss) from continuing operations after minority interests	(1,773)	6,349	7,219	3,931	4,881
Income (loss) from continuing operations per common share(4)					
Cash dividends per common share(4)					
Supplemental unaudited pro forma information:(2)					
Net income (loss)	(1,773)	6,349	7,219	3,931	4,881
Pro forma provision for income tax expense (benefit)	(674)	2,413	2,743	1,500	1,855
Pro forma net income (loss)	$ (1,099)	$ 3,936	$ 4,476	$ 2,431	$ 3,026
BALANCE SHEET DATA (AT END OF PERIOD):					
Total Assets		$ 27,562	$ 25,298	$ 24,819	$ 25,068
Long-term Debt		$ 4,810	$ 6,065	$ 6,542	$ 7,697

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(1) Includes the acquisition of a majority interest in WKXT in July 1992, which was accounted for using the purchase method of accounting.

(2) John H. Phipps, Inc. and its subsidiaries filed a consolidated federal income tax return and separate state tax returns. Income tax expense for the First American Business is not presented in the financial statements as such amounts are computed and paid by John H. Phipps, Inc. Pro forma federal and

state income taxes for the First American Business are calculated on a pro forma, separate return basis. See Note E to the September 30, 1996 Audited Financial Statements of the Broadcasting and Paging Operations of John H. Phipps, Inc. included elsewhere herein. See Item 8.

(3) On September 30, 1996, Gray purchased from First American Media, Inc. substantially all of the broadcasting and paging assets of John H. Phipps, Inc.

(4) Per share data is not applicable for the Broadcasting and Paging Operations of John H. Phipps, Inc.

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 the Company should be read in conjunction with the Company's Audited Consolidated Financial Statements and notes thereto included elsewhere herein.

The Company derives its revenues from its television broadcasting, publishing and paging operations. In September 1996, the Company acquired substantially all of the assets of WKXT-TV, WCTV-TV, a satellite production and 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") as a component of its strategy to promote the station's upgraded news product. On January 4, 1996, the Company purchased substantially all of the assets of WRDW-TV (the "Augusta Acquisition"). The First American Acquisition and the Augusta Acquisition are collectively referred to as the "1996 Broadcasting Acquisitions." In September 1994, the Company purchased substantially all of the assets of WKYT-TV and WYMT-TV (the "Kentucky Acquisition"). As a result of the 1996 Broadcasting Acquisitions and the Kentucky Acquisition, the proportion of the Company's revenues derived from television broadcasting has increased significantly. The Company currently has signed a letter of intent to purchase substantially all of the assets of WITN-TV, the NBC affiliate in the Greenville-Washington-New Bern, North Carolina market. The Company has also signed an agreement to purchase Gulflink Communications, Inc., which is in the transportable satellite uplink business, a business in which the Company is already engaged. The Company anticipates that the proportion of the Company's revenues derived from television broadcasting will increase further if such acquisitions are completed. 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.

	YEAR ENDED DECEMBER 31,					
	1996		1995		1994	
	AMOUNT	PERCENT OF TOTAL	AMOUNT	PERCENT OF TOTAL	AMOUNT	PERCENT OF TOTAL
	(DOLLARS IN THOUSANDS)					
BROADCASTING						
Revenues	$ 54,981.3	69.3%	$ 36,750.0	62.7%	$ 22,826.4	62.5%
Operating income(1)	16,988.7	84.0%	10,585.2	94.1%	6,556.0	78.4%
PUBLISHING						
Revenues	$ 22,845.3	28.8%	$ 21,866.2	37.3%	$ 13,692.0	37.5%
Operating income(1)	3,166.7	15.7%	660.2	5.9%	1,804.0	21.6%
PAGING						
Revenues	$ 1,478.6	1.9%	$ -0-	-0-%	$ -0-	-0-%
Operating income(1)	71.4	0.3%	-0-	-0-%	-0-	-0-%

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(1) Represents income before miscellaneous income (expense), allocation of corporate overhead, interest expense, income taxes and extraordinary charge.

The operating revenues of the Company's television stations are derived primarily 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.

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 54.4% of the gross revenues of the Company's television stations for the year ended December 31, 1996 were generated from local advertising, which is sold primarily by a station's sales staff directly to local accounts, and the remainder represented primarily 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. Of the Company's pagers currently in service, approximately 73% are owned and maintained by subscribers with the remainder being leased. 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.

The following table sets forth certain operating data for the broadcast, publishing and paging operations for the years ended December 31, 1996, 1995 and 1994.

	YEAR ENDED DECEMBER 31,		
	1996	1995	1994
	(DOLLARS IN THOUSANDS)		
Operating income	$ 16,078.9	$ 6,859.7	$ 6,276.4
Add:			
Amortization of program license rights	2,742.7	1,647.0	1,218.0
Depreciation and amortization	7,662.5	3,958.9	2,141.6
Corporate overhead	3,218.6	2,258.3	1,958.4
Non-cash compensation and contribution to 401(k) plan, paid in Common Stock	1,126.6	2,612.2	109.5
Less:			
Payments for program license liabilities	(2,877.1)	(1,776.8)	(1,181.6)
Media cash flow(1)	$ 27,952.2	$ 15,559.3	$ 10,522.3

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(1) Of media cash flow, $22.6 million, $13.6 million and $8.0 million was attributable to the Company's broadcasting operations in 1996, 1995 and 1994, respectively; $5.0 million, $2.0 million and $2.5 million was attributable to the Company's publishing operations in 1996, 1995 and 1994, respectively; and $400,900, $-0-and $-0- was attributable to the Company's paging operations in 1996, 1995 and 1994, respectively.

"Media cash flow" is defined as operating income from broadcast, publishing and paging operations before income taxes and interest expense, 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 broadcast, publishing and paging 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.

Since 1994, the Company has completed several broadcasting and publishing acquisitions and a broadcasting disposition. The financial results of the Company reflect significant increases between the years ended December 31, 1996, December 31, 1995 and December 31, 1994 in substantially all line items. The principal reason for these increases was the completion by the Company of the First American Acquisition (September 1996), the Augusta Acquisition (January 1996) and the Kentucky Acquisition (September 1994). The purchase price for the First American Acquisition was approximately $183.9 million, of which, $175.5 million was cash, $1.8 million was in the form of acquisition-related costs, and approximately $6.6 million resulted from assumed liabilities. The purchase price for the Augusta Acquisition was $35.9 million in cash and the assumption of $1.3 million in liabilities. The purchase price for the Kentucky Acquisition consisted of $38.1 million in cash and the assumption of $2.3 million of liabilities. 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 (approximately $829,000).

In addition, during 1995 the Company acquired the GWINNETT DAILY POST for approximately $3.7 million (January 1995) and three area weekly advertising only direct mail publications ("Shoppers") for an aggregate purchase price of approximately $1.4 million (September 1995) (the "1995 Publishing Acquisitions"), and during 1994 the Company acquired THE ROCKDALE CITIZEN for approximately $4.8 million (May

1994) and four Shoppers located in southwest Georgia for approximately $1.5 million (October 1994) (the "1994 Publishing Acquisitions"). The 1995 Publishing Acquisitions and the 1994 Publishing Acquisitions are collectively referred to as the "Publishing Acquisitions."

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, 1996, 1995 and 1994.

	YEAR ENDED DECEMBER 31,		
	1996	1995	1994
	(DOLLARS IN THOUSANDS)		
Cash flows provided by (used in)			
Operating activities	$ 12,055.0	$ 7,599.7	$ 5,797.8
Investing activities	(214,440.9)	(8,929.3)	(42,770.2)
Financing activities	202,876.9	1,331.0	37,199.7

BROADCASTING, PUBLISHING AND PAGING REVENUES

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 to the Company's total broadcasting, publishing and paging revenues, respectively:

	YEAR ENDED DECEMBER 31,					
	1996		1995		1994	
	AMOUNT	%	AMOUNT	%	AMOUNT	%
	(DOLLARS IN THOUSANDS)					
BROADCASTING						
Net Revenues:						
Local	$ 30,045.6	37.9%	$ 20,888.1	35.6%	$ 12,191.4	33.4%
National	15,611.1	19.7%	10,881.1	18.6%	7,804.4	21.4%
Network compensation	3,660.7	4.6%	2,486.8	4.2%	1,297.5	3.5%
Political	3,612.5	4.6%	1,174.2	2.0%	1,029.0	2.8%
Production and other	2,051.4	2.5%	1,319.8	2.3%	504.1	1.4%
	$ 54,981.3	69.3%	$ 36,750.0	62.7%	$ 22,826.4	62.5%
PUBLISHING						
Revenues:						
Circulation	$ 4,271.6	5.4%	$ 3,783.8	6.5%	$ 2,628.9	7.2%
Local advertising	11,089.7	14.0%	11,044.2	18.8%	7,460.3	20.4%
Classifieds	6,150.0	7.8%	5,323.8	9.1%	3,174.2	8.7%
Other	1,334.0	1.6%	1,714.4	2.9%	428.6	1.2%
	$ 22,845.3	28.8%	$ 21,866.2	37.3%	$ 13,692.0	37.5%
PAGING						
Revenues:						
Paging lease and service	$ 1,557.0	2.0%	$ 0.0	0.0%	$ 0.0	0.0%
Other	(78.4)	(0.1)%	0.0	0.0%	0.0	0.0%
	1,478.6	1.9%	$ 0.0	0.0%	$ 0.0	0.0%
TOTAL	$ 79,305.2	100.0%	$ 58,616.2	100.0%	$ 36,518.4	100.0%

YEAR ENDED DECEMBER 31, 1996 TO YEAR ENDED DECEMBER 31, 1995

REVENUES. Total revenues for the year ended December 31, 1996 increased $20.7 million, or 35.3%, over the year ended December 31, 1995, from $58.6 million to $79.3 million. This increase was attributable to the net effect of (i) increased revenues as a result of the 1996 Broadcasting Acquisitions, (ii) increases in total revenues of the Company (excluding the 1996 Broadcasting Acquisitions) and (iii) decreased revenues as a result of the KTVE Sale. The 1996 Broadcasting Acquisitions, net of the effects of the KTVE Sale, accounted for $16.4 million, or 79.3%, of the revenue increase.

Broadcast net revenues increased $18.3 million, or 49.6%, over the prior year, from $36.7 million to $55.0 million. The 1996 Broadcasting Acquisitions, net of the effects of the KTVE Sale, accounted for $14.9 million, or 81.9%, of the broadcast net revenue increase. On a pro forma basis, assuming the 1996 Broadcasting Acquisitions had been effective on January 1, 1995, broadcast net revenues for the 1996 Broadcasting Acquisitions for the year ended December 31, 1996 increased $2.0 million, or 6.4%, over the year ended December 31, 1995 from $31.3 million to $33.3 million. The KTVE Sale resulted in a decrease in broadcast net revenues of $1.2 million. Broadcast net revenues, excluding the 1996 Broadcasting Acquisitions and the operating results of KTVE, increased $3.3 million, or 9.0%, over the prior year. Approximately $1.4 million, $1.4 million, $267,000 and 224,000 of the $3.3 million increase in broadcast net revenues, excluding the 1996 Broadcasting Acquisitions and the operating results of KTVE, was due to increased political advertising spending, local advertising spending, network compensation and other revenue, respectively.

Publishing revenues increased $979,000, or 4.5%, over the prior year, from $21.9 million to $22.8 million. Circulation and classified advertising revenue comprised approximately $486,000 and $826,000, respectively, of the revenue increase. This increase in circulation revenue was attributable primarily to price increases in 1996 at two of the Company's publishing operations and the conversion of the GWINNETT DAILY POST to a five-day-a-week paper. The increase in classified advertising was primarily the result of linage increases. These increases were offset by a decrease of $267,000 in commercial printing revenue.

Paging revenue increased $1.5 million due to the 1996 Broadcasting Acquisitions. On a pro forma basis, assuming the 1996 Broadcasting Acquisitions had been effective on January 1, 1995, paging revenue for the year ended December 31, 1996 increased $621,000, or 12.7%, over the year ended December 31, 1995 from $4.9 million to $5.5 million. The increase was attributable primarily to higher sales volume generated by a reseller program implemented during 1995.

OPERATING EXPENSES. Operating expenses for the year ended December 31, 1996 increased $11.5 million, or 22.2%, over the year ended December 31, 1995 from $51.7 million to $63.2 million. This increase was attributable to the net effect of (i) increased expenses resulting from the 1996 Broadcasting Acquisitions, (ii) increases in total expenses of the Company (excluding the 1996 Broadcasting Acquisitions), (iii) decreased expenses resulting from the KTVE Sale, (iv) decreased publishing expenses and (v) decreased non-cash compensation. The 1996 Broadcasting Acquisitions net of the effects of the KTVE Sale accounted for $9.3 million, or 80.7%, of the increase in operating expenses.

Broadcast expenses increased $9.2 million, or 39.8%, over the prior year, from $23.2 million to $32.4 million. The increase was attributable primarily to the 1996 Broadcasting Acquisitions partially offset by the KTVE Sale. On a pro forma basis, assuming the 1996 Broadcasting Acquisitions had been effective on January 1, 1995, broadcast expenses for the 1996 Broadcasting Acquisitions for the year ended December 31, 1996 increased $432,000, or 2.4%, over the year ended December 31, 1996 from $17.5 million to $18.0 million. The KTVE Sale resulted in a decrease in broadcast expenses of $1.1 million. Broadcast expenses, excluding the results of the 1996 Broadcasting Acquisitions and the KTVE Sale, increased $1.1 million, or 5.3%, as a result of higher payroll costs partially offset by lower syndicated film expense.

Publishing expenses decreased $2.1 million, or 10.3%, over the prior year, from $20.0 million to $17.9 million. This decrease resulted primarily from a decrease in work force related costs, improved newsprint pricing, fewer promotions and restructuring of the advertising publications, partially offset by higher product delivery and outside service costs associated with the conversion of the GWINNETT DAILY POST to a five-day-a-week newspaper. Average newsprint costs decreased approximately 9.6%, while newsprint consumption remained relatively constant with that of the prior year.

Paging expenses increased $1.1 million due to the 1996 Broadcasting Acquisitions. On a pro forma basis, assuming the 1996 Broadcasting Acquisitions had been effective on January 1, 1995, paging expenses for the year ended December 31, 1996 increased $637,000, or 19.9%, over the year ended December 31, 1996 from $3.2 million to $3.8 million. This increase was attributable primarily to increased trade expense, administrative expense and other communication expenses.

Corporate and administrative expenses increased $960,000, or 42.5%, over the prior year, from $2.3 million to $3.2 million. This increase was attributable primarily to the addition of several officers at the corporate level.

DEPRECIATION AND AMORTIZATION. Depreciation of property and equipment and amortization of intangible assets was $7.7 million for the year ended December 31, 1996, compared to $3.9 million for the prior year, an increase of $3.8 million, or 93.6%. This increase was primarily the result of higher depreciation and amortization costs related to the 1996 Broadcasting Acquisitions.

NON-CASH COMPENSATION. Non-cash compensation paid in Class A Common Stock resulted from the Company's employment agreements with its former President, Ralph W. Gabbard, who died unexpectedly in September 1996 and its former chief executive officer, John T. Williams, who resigned in December 1995. Non-cash compensation was $880,000 for the year ended December 31, 1996, compared to $2.3 million for the prior year, a decrease of $1.4 million, or 62.1%. The decrease was primarily attributable to a restricted stock award to the estate of Ralph W. Gabbard, for which the Company incurred expense of $880,000 for the year ended December 31, 1996 and the 1995 restricted stock award of 150,000 shares of Class A Common Stock to John T. Williams, for which the Company incurred expense of $2.1 million for the year ended December 31, 1995.

MISCELLANEOUS INCOME AND EXPENSE, NET: Miscellaneous income and expense increased $5.6 million from $143,600 for the year ended December 31, 1995 to $5.7 million for the year ended December 31, 1996. The increase was primarily attributable to the KTVE Sale which resulted in a gain before income tax of $5.7 million.

INTEREST EXPENSE. Interest expense increased $6.3 million, or 114.9%, from $5.4 million for the year ended December 31, 1995 to $11.7 million for the year ended December 31, 1996. This increase was attributable primarily to increased levels of debt resulting from the financing of the 1996 Broadcasting Acquisitions. The Company entered into a $25.0 million notional amount five year interest rate swap agreement on June 2, 1995, to effectively convert a portion of its floating rate debt to a fixed rate basis. Effective May 14, 1996, the Company received $254,000 as settlement of this interest rate swap agreement, which will be reflected as a reduction of interest expense over the remaining life of the original five-year interest rate swap agreement term. The effective interest rate of the Company's senior subordinated notes and Senior Credit Facility at December 31, 1996 was approximately 10.63% and 8.39%, respectively.

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 credit facility and Senior Note.

NET INCOME AVAILABLE TO COMMON STOCKHOLDERS. Net income available to common stockholders for the Company was $2.1 million for the year ended December 31, 1996 compared with $931,000 for the year ended December 31, 1995, an increase of $1.2 million, or 130.2%.

YEAR ENDED DECEMBER 31, 1995 TO YEAR ENDED DECEMBER 31, 1994

REVENUES. Total revenues for the year ended December 31, 1995 increased $22.1 million, or 60.5%, over the year ended December 31, 1994, from $36.5 million to $58.6 million. This increase was attributable to (i) the effect of owning the Kentucky Business for all of 1995 versus the last four months of 1994 ($12.9 million), (ii) the Publishing Acquisitions ($6.4 million) and (iii) increases in total revenues of the Company (excluding the Kentucky Acquisition and the Publishing Acquisitions). The Kentucky Acquisition and the Publishing Acquisitions accounted for $19.3 million, or 87.3%, of the revenue increase.

Broadcast net revenues increased $13.9 million, or 61.0%, over the prior year, from $22.8 million to $36.7 million. Revenues generated by the Kentucky Acquisition accounted for $12.9 million, or 92.8%, of the increase. On a pro forma basis, broadcast net revenues for the Kentucky Business for the year ended December 31, 1995 increased $2.7 million, or 16.1%, over the year ended December 31, 1994 from $16.6 million to $19.3 million. Broadcast net revenues, excluding the Kentucky Acquisition, increased $1.0 million, or 6.1%, over the prior year. Approximately $889,000 and $304,000 of the $1.0 million increase in broadcast net revenues, excluding the Kentucky Acquisition, were due to higher local and national advertising spending, respectively. Approximately $417,000 of the $1.0 million increase in broadcast net revenues, excluding the Kentucky Acquisition, was a result of higher network compensation negotiated by the Company with CBS and NBC. These increases were offset by a $617,000 decrease in political advertising revenues associated with cyclical political activity.

Publishing revenues increased $8.2 million, or 59.7%, over the prior year, from $13.7 million to $21.9 million. Approximately $6.4 million, or 77.8%, of the increase was due to the Publishing Acquisitions. Publishing revenues, excluding the Publishing Acquisitions, increased $1.8 million, or 15.5%, over the prior year. Advertising and circulation revenue, excluding the Publishing Acquisitions, comprised approximately $885,000 and $511,000, respectively, of the revenue increase. This increase in circulation revenue was attributable primarily to price increases over the prior year. The increase in classified advertising, excluding the Publishing Acquisitions, was primarily the result of rate and linage increases. Approximately $417,000 of the revenue increase, excluding the Publishing Acquisitions, was the result of higher special events and commercial printing revenues.

OPERATING EXPENSES. Operating expenses for the year ended December 31, 1995 increased $21.5 million, or 71.1%, over the year ended December 31, 1994 from $30.2 million to $51.7 million, primarily due to the Kentucky Acquisition ($9.8 million) and the Publishing Acquisitions ($7.6 million).

Broadcasting expenses increased $8.3 million, or 56.1%, over the prior year, from $14.9 million to $23.2 million. The increase was attributable primarily to the Kentucky Acquisition. On a pro forma basis, broadcasting expenses for the Kentucky Business for the year ended December 31, 1995 increased $1.5 million, or 14.3%, over the year ended December 31, 1994 from $10.7 million to $12.2 million. The increase in broadcast expenses for the Kentucky Business can be attributable primarily to increased payroll related costs and sales commissions. Broadcasting expenses, excluding the Kentucky Acquisition, remained relatively constant, primarily as a result of lower syndicated film programming costs offset by higher payroll related costs.

Publishing expenses increased $8.8 million, or 78.7%, over the prior year, from $11.2 million to $20.0 million. Approximately $7.1 million, or 80.6%, of the increase was due to the Publishing Acquisitions. Publishing expenses, excluding the Publishing Acquisitions, increased $1.7 million, or 18.5%, primarily due to a 40% increase in newsprint cost, increased payroll related costs and product delivery and promotion costs.

Corporate and administrative expenses increased $300,000, or 15.3%, over the prior year, from $2.0 million to $2.3 million. This increase was attributable primarily to the separation agreement with the Company's former chief executive officer, which resulted in a $440,000 charge to expense.

DEPRECIATION AND AMORTIZATION. Depreciation of property and equipment and amortization of intangible assets was $3.9 million for the year ended December 31, 1995, compared to $2.1 million for the prior year, an increase of $1.8 million, or 84.9%. This increase was primarily the result of higher depreciation and amortization costs related to the Kentucky Acquisition and the Publishing Acquisitions.

NON-CASH COMPENSATION. Non-cash compensation paid in Class A Common Stock resulted from the Company's employment agreements with its former President and its former chief executive officer. The former President's employment agreement provided him with 122,034 shares of Class A Common Stock if his employment continued until September 1999. This agreement resulted in a charge to expense of $240,000 for the year ended December 31, 1995 as compared to $80,000 for the year ended December 31, 1994. In addition, the Company awarded 150,000 shares of Class A Common Stock, pursuant to the amended employment agreement with its former chief executive officer, which resulted in an expense of $2.1 million, all of which was recognized in 1995.

INTEREST EXPENSE. Interest expense increased $3.5 million, or 182.8%, from $1.9 million for the year ended December 31, 1994 to $5.4 million for the year ended December 31, 1995. This increase was attributable primarily to increased levels of debt resulting from the financing of the Kentucky Acquisition and the Publishing Acquisitions. The Company entered into a $25.0 million notional amount five year interest rate swap agreement on June 2, 1995, to effectively convert a portion of its floating rate debt to a fixed rate basis. The interest rate swap fixed the LIBOR base rate of the old credit facility at 6.105% for the notional amount. Under the terms of the interest rate swap, amounts were paid to or received from Society National Bank ("Society"), the other party to the swap, on a quarterly basis. The calculation of these amounts was based upon a comparison of the results of multiplying the notional amount by (i) 6.105% and (ii) Society's current three-month LIBOR rate. If Society's current three-month LIBOR rate was lower than 6.105%, the Company paid Society the difference. If Society's current three-month LIBOR rate was higher than 6.105%, Society paid the Company the difference. Since the inception of the interest rate swap agreement, the three-month LIBOR rates charged by Society have been consistent with the three-month LIBOR rates published in THE WALL STREET JOURNAL. The Company recorded approximately $34,000 of interest expense relative to the interest rate swap in 1995. The Company recorded approximately $34,000 of interest expense relative to the interest rate swap in 1995. The effective interest rate of the Company's bank term loan agreement and interest rate swap at December 31, 1995 was approximately 8.64% and 9.10%, respectively.

NET INCOME AVAILABLE TO COMMON STOCKHOLDERS. Net income available to common stockholders for the Company was $931,000 for the year ended December 31, 1995 compared with $2.8 million for the year ended December 31, 1994, a decrease of $1.8 million, or 66.3%.

LIQUIDITY AND CAPITAL RESOURCES

The Company's working capital deficiency was $342,000 and $222,000 at December 31, 1996 and 1995, respectively. The Company's cash provided from operations was $12.1 million, $7.6 million and $5.8 million in 1996, 1995 and 1994, 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 capital expenditures and 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 1.0% or LIBOR plus 3.25%. The Senior Credit Facility contains restrictive provisions similar to the provisions of the Company's 10 5/8% Senior Subordinated Notes due 2006. The amount borrowed by the Company and the amount available to the Company under the Senior Credit Facility at December 31, 1996 was $12.7 million and $112.3 million, respectively.

The Company's cash used in investing activities was $214.4 million, $8.9 million and $42.8 million in 1996, 1995 and 1994, respectively. The increase of $205.5 million from 1995 to 1996 was primarily due to the 1996 Broadcasting Acquisitions. The decrease of $33.9 million from 1994 to 1995 was primarily due to the Kentucky Acquisition and the 1994 Publishing Acquisitions (in 1994), partially offset by the 1995 Publishing Acquisitions and the deferred costs related to the Augusta Acquisition (in 1995).

The Company was provided $202.9 million, $1.3 million and $37.2 million in cash by financing activities in 1996, 1995 and 1994, respectively. The cash provided in 1996 resulted primarily from the (i) 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. Cash provided by financing activities in 1994 and 1995 was principally due to increased borrowings in 1994 to finance the Kentucky Acquisition and the 1994 Publishing Acquisitions, as well as increased borrowings in 1995 to finance the 1995 Publishing Acquisitions and the funding of the deposit for the Augusta Acquisition.

On September 30, 1996 the Company completed the First American Acquisition. The purchase price for the First American Acquisition was approximately $183.9 million and consisted of $175.5 million cash, $1.8 million in acquisition-related costs, and the assumption of approximately $6.6 million of liabilities.

In addition to the consummation of the First American Acquisition, the Company implemented a financing plan to increase liquidity and improve operating and financial flexibility. Pursuant to the financing plan, the Company (i) retired approximately $45.3 million principal amount of outstanding indebtedness under its former credit facility, together with accrued interest thereon, (ii) retired approximately $25.0 million aggregate principal amount of outstanding indebtedness under its senior note, together with accrued interest thereon and a prepayment fee, (iii) issued $10.0 million liquidation preference of its Series A Preferred Stock in exchange for the Company's 8% note owned by the Company's principal stockholder, with warrants to purchase up to 487,500 shares of Class A Common Stock (representing 9.8% of the Class A Common Stock issued and outstanding at December 31, 1996, after giving effect to the exercise of such warrants), (iv) issued to Bull Run Corporation, J. Mack Robinson (Chairman of the Board of Bull Run Corporation and the interim President and Chief Executive Officer of the Company) and certain of his affiliates $10.0 million liquidation preference of its Series B Preferred Stock with warrants to purchase up to 500,000 shares of Class A Common Stock (representing 10.0% of the Class A Common Stock issued and outstanding at December 31, 1996, after giving effect to the exercise of such warrants) for cash proceeds of $10.0 million and (v) entered into the Senior Credit Facility which is comprised of a term loan of $71.5 million and a revolving credit facility of $53.5 million aggregating $125.0 million.

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 avaiable 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 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 completed the KTVE Sale, 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, (approximately $829,000). The Company recognized a pre-tax gain of approximately $5.7 million and estimated income taxes of approximately $2.8 million.

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, 1996, payments on program license liabilities due in 1997, which will be paid with cash from operations, were approximately $4.2 million.

In 1996, the Company made $3.4 million in capital expenditures, relating primarily to the broadcasting operations, and paid $2.9 million for program broadcast rights. The Company anticipates making $7.5 million in capital expenditures in 1997.

In connection with the First American Acquisition, the FCC ordered the Company to divest itself of WJHG-TV and WALB-TV 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-TV would not be required. The FCC is not expected to complete its rulemaking on this subject until later in 1997. Accordingly the Company will request, and expects to receive, an extension of the divestiture deadline pending the outcome of the rulemaking proceedings. In order to satisfy applicable FCC requirements with respect to WALB-TV, the Company, subject to FCC approval, intends to swap such assets for assets of one or more television stations of comparable value and with comparable broadcast cash flow in a transaction qualifying for deferred capital gains treatment under the "like-kind exchange" provision of Section 1031 of the Internal Revenue Code of 1986. If the Company is unable to enter into an agreement to effect such a swap by March 31, 1997, the Company will seek FCC approval to transfer the station to a trust with a view towards the trustee effecting a swap or sale of such assets. Under such trust arrangement, which would be subject to the approval of the FCC, the Company would be required to relinquish operating control of the station to a trustee while retaining the economic risks and benefits of ownership. If the Company or such trust is required to effect a sale of WALB-TV, the Company would incur a significant gain and related tax liability, the payment of which could have a material adverse effect on the Company's ability to acquire comparable assets without incurring additional indebtedness.

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, 1996, 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.

Additional acquisitions are under consideration by the Company. If completed, the Company currently believes that funding for such acquisitions would be provided primarily through cash flow from operations and borrowings under the Senior Credit Facility, although there can be no assurances that any such acquisitions would not require the sale by the Company of its debt or equity securities.

RESULTS OF OPERATIONS OF THE FIRST AMERICAN BUSINESS

INTRODUCTION

The following analysis of the financial condition and results of operations of the Broadcasting and Paging Operations of John H. Phipps, Inc., (referred to as the "First American Business") should be read in conjunction with the September 30, 1996 Audited Financial Statements of the Broadcasting and Paging Operations of John H. Phipps, Inc. and notes thereto.

The First American Business derived its revenues from its television broadcasting operations which consisted of two CBS-affiliated television stations, WCTV-TV serving Tallahassee, Florida/Thomasville, Georgia and WKXT-TV in Knoxville, Tennessee, as well as a satellite broadcasting business based in Tallahassee, Florida and a paging business also based in Tallahassee, Florida.

On September 30, 1996, the Company purchased substantially all of the assets used in the operation of the First American Business.

Set forth below, for the periods indicated, is certain information concerning the relative contributions of the First American Business's broadcasting (including satellite broadcasting) and paging operations.

	NINE MONTHS ENDED SEPTEMBER 30				YEAR ENDED DECEMBER 31			
	1996		1995		1995		1994	
	AMOUNT	PERCENT OF TOTAL	AMOUNT	PERCENT OF TOTAL	AMOUNT	PERCENT OF TOTAL	AMOUNT	PERCENT OF TOTAL
	(UNAUDITED) (DOLLARS IN THOUSANDS)							
BROADCASTING								
Revenues	$17,163.2	80.9%	$16,338.0	81.4%	$22,424.1	82.1%	$21,524.3	83.4%
Operating income(1)	6,065.0	97.0	6,951.3	88.0	9,635.3	90.4	9,297.9	91.6
PAGING								
Revenues	$ 4,040.1	19.1%	$ 3,723.0	18.6%	$ 4,897.5	17.9%	$ 4,276.6	16.6%
Operating income(1)	186.1	3.0	950.3	12.0	1,026.9	9.6	855.1	8.4

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(1) Excludes any allocation of corporate and administrative expenses.

MEDIA CASH FLOW

The following table sets forth certain operating data for the First American Business for the nine months ended September 30, 1996 and 1995 and for the years ended December 31, 1995 and 1994.

	NINE MONTHS ENDED SEPTEMBER 30		YEAR ENDED DECEMBER 31	
	1996	1995	1995	1994
	(UNAUDITED) (DOLLARS IN THOUSANDS)			
Operating income (loss)	$(1,703.1)	$ 5,593.6	$ 7,381.8	$ 7,667.6
Add:				
Amortization of program license rights	695.8	633.6	844.8	1,021.4
Depreciation and amortization	2,300.8	2,280.5	3,120.4	2,672.2
Corporate overhead	7,954.2	2,308.1	3,280.4	2,485.4
Less:				
Payments for program license liabilities	(840.8)	(705.4)	(931.0)	(863.3)
Media Cash Flow(1)	$ 8,406.9	$10,110.4	$13,696.4	$12,983.3

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(1) Of Media Cash Flow, $7.7 million and $8.6 million was attributable to the First American Business's broadcasting operations for the nine months ended September 30, 1996 and 1995, respectively. Of Media Cash Flow, $11.9 million and $11.5 million was attributable to the First American Business's broadcasting operations in 1995 and 1994, respectively.

"Media cash flow" is defined as operating income (loss) from broadcast and paging operations before income taxes and interest expense, 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 for the First American Business, because such data are commonly used as a measure of performance for broadcast and paging 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 (loss), net income (loss) or cash flow as reflected in the September 30, 1996 Audited Consolidated Financial Statements of the Broadcasting and Paging Operations of John H. Phipps, Inc., 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 operating data for the First American Business for the nine months ended September 30, 1996 and 1995 and for the years ended December 31, 1995 and 1994.

	NINE MONTHS ENDED SEPTEMBER 30		YEAR ENDED DECEMBER 31	
	1996	1995	1995	1994
	(UNAUDITED) (DOLLARS IN THOUSANDS)			
Cash flows provided by (used in)				
Operating activities	$ 368.0	$ 7,258.1	$ 9,259.0	$ 9,808.3
Investing activities	(969.3)	(3,882.2)	(3,827.9)	(2,505.6)
Financing activities	229.1	(3,697.9)	(4,906.4)	(7,233.4)

BROADCASTING AND PAGING REVENUES

Set forth below are the principal types of broadcast net revenues earned by the First American Business's television stations (including the satellite broadcasting operation) and paging operations for the periods indicated and the percentage contribution of each to the First American Business's total revenues.

	NINE MONTHS ENDED SEPTEMBER 30				YEAR ENDED DECEMBER 31			
	1996		1995		1995		1994	
	AMOUNT	PERCENT OF TOTAL	AMOUNT	PERCENT OF TOTAL	AMOUNT	PERCENT OF TOTAL	AMOUNT	PERCENT OF TOTAL
	(UNAUDITED) (DOLLARS IN THOUSANDS)							
BROADCASTING								
Net revenues								
Local	$ 8,641.5	40.8%	$ 8,166.2	40.7%	$11,149.2	40.8%	$10,412.2	40.4%
National	5,320.0	25.1	5,688.9	28.4	7,844.9	28.7	7,217.0	27.9
Network compensation	1,224.1	5.8	1,242.4	6.2	1,740.1	6.4	1,433.2	5.6
Political	552.5	2.6	14.6	0.1	33.9	0.1	1,147.1	4.4
Production and other(1)	1,425.1	6.6	1,225.9	6.0	1,656.0	6.1	1,314.8	5.1
	$17,163.2	80.9%	$16,338.0	81.4%	$22,424.1	82.1%	$21,524.3	83.4%
PAGING								
Net revenues								
Paging lease and service	$ 4,276.1	20.2%	$ 3,756.9	18.7%	$ 5,004.9	18.3%	$ 4,201.4	16.3%
Other	(236.0)	(1.1)	(33.9)	(0.1)	(107.4)	(0.4)	75.2	0.3
	$ 4,040.1	19.1%	$ 3,723.0	18.6%	$ 4,897.5	17.9%	$ 4,276.6	16.6%
TOTAL	$21,203.3	100.0%	$20,061.0	100.0%	$27,321.6	100.0%	$25,800.9	100.0%

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(1) Includes satellite broadcasting business.

NINE MONTHS ENDED SEPTEMBER 30, 1996 COMPARED TO NINE MONTHS ENDED SEPTEMBER 30, 1995

REVENUES. Total revenues for the nine months ended September 30, 1996 increased $1.1 million, or 5.7%, over the nine months ended September 30, 1995, from $20.1 million to $21.2 million. This increase was attributable to an improvement in local and political advertising revenue in the broadcasting operations and the implementation of a reseller program in the paging operations.

Broadcast net revenues for the First American Business increased $825,000, or 5.1%, over the same period of the prior year, from $16.3 million to $17.2 million. Approximately $475,000, $538,000 and

$199,000 of the increase in total broadcast net revenues resulted from an increase in local advertising revenue, political advertising revenue and production and other advertising revenue, respectively. This increase was partially offset by a $369,000 decrease in national advertising revenue.

Net paging revenues for the First American Business increased $317,000, or 8.5%, over the same period of the prior year, from $3.7 million to $4.0 million. The increase was attributable primarily to higher sales volume generated by a reseller program implemented during 1995.

OPERATING EXPENSES. Operating expenses for the nine months ended September 30, 1996 increased $8.4 million, or 58.3%, over the nine months ended September 30, 1995, from $14.5 million to $22.9 million. The increase was attributable primarily to an increase in broadcasting expenses, paging expenses and management fees of $1.6 million, $1.2 million and $5.6 million, respectively.

Broadcasting expenses increased $1.6 million, or 21.1%, over the same period of the prior year, from $7.7 million to $9.3 million. The increase was attributable primarily to higher payroll and related costs resulting from the payment of bonuses and severance to employees.

Paging expenses increased $1.2 million, or 52.4%, over the same period of the prior year, from $2.2 million to $3.4 million. The increase was attributable primarily to higher payroll and related costs resulting from the payment of bonuses and severance to employees.

Management fees for the nine months ended September 30, 1996 increased $5.6 million, or 244.6%, from the same period of the prior year, from $2.3 million to $7.9 million. The increase was attributable to higher personnel costs and bonuses to certain executives.

Phipps paid substantially all of its employees a separation bonus prior to the sale of the Broadcasting and Paging operations. Broadcasting and paging expenses recognized from these separation bonuses were approximately $1.6 million in the nine months ended September 30, 1996.

Depreciation of property and equipment and amortization of intangible assets for the nine months ended September 30, 1996 and 1995 was $2.3 million.

INTEREST EXPENSE. Interest expense for the nine months ended September 30, 1996 decreased $109,000, or 28.2%, from the same period of the prior year from $387,000 to $278,000. This decrease was primarily attributable to a reduction in average debt outstanding during the period.

NET LOSS. The net loss for the First American Business was $1.8 million for the nine months ended September 30, 1996 compared with net income of $4.8 million for the nine months ended September 30, 1995, a decrease of $6.6 million, or 136.7%.

YEAR ENDED DECEMBER 31, 1995 COMPARED TO YEAR ENDED DECEMBER 31, 1994

REVENUES. Total revenues for the First American Business for the year ended December 31, 1995 increased $1.5 million, or 5.9%, over the year ended December 31, 1994, from $25.8 million to $27.3 million. This increase was attributable to an improvement in local and national advertising revenue in the broadcasting operations and the implementation of a reseller program in the paging operations.

Broadcast net revenues increased $900,000, or 4.2%, over the prior year, from $21.5 million to $22.4 million. Approximately $737,000, $628,000, $307,000 and $341,000 of the increase in total broadcast net revenues was due to higher local advertising revenue, national advertising revenue, network compensation and production revenues, respectively, offset by a $1.1 million decrease in political advertising spending associated with cyclical political activity. In addition, revenues generated from satellite broadcasting operations increased due to additional equipment coming on line.

Net paging revenues increased $620,000, or 14.5%, over the prior year, from $4.3 million to $4.9 million. The increase was attributable primarily to higher sales volume generated by a reseller program implemented during 1995.

OPERATING EXPENSES. Operating expenses for the year ended December 31, 1995 increased $1.8 million, or 10.0%, over the year ended December 31, 1994, from $18.1 million to $19.9 million. The increase was attributable primarily to higher payroll and related costs and sales expenses and commissions associated with higher sales volumes, increased corporate overhead and depreciation and amortization costs.

Broadcasting expenses increased $276,000, or 2.7%, over the prior year, from $10.2 million to $10.5 million. The increase was attributable primarily to higher payroll and related costs offset by lower syndicated film programming costs.

Paging expenses increased $288,000, or 10.4%, over the prior year, from $2.8 million to $3.1 million. The increase was attributable primarily to higher payroll, sales and operating costs associated with revenue growth.

Management fees for the year ended December 31, 1995 increased $794,000, or 32.0%, over the year ended December 31, 1994, from $2.5 million to $3.3 million. The increase was attributable to higher personnel costs and overhead allocation.

Depreciation of property and equipment and amortization of intangible assets for the year ended December 31, 1995 increased $448,000, or 16.8%, over the year ended December 31, 1994, from $2.7 million to $3.1 million. This increase was primarily the result of higher depreciation costs relating to property and equipment purchases and higher amortization of intangible assets in connection with the purchase of certain minority interests of WKXT in Knoxville, Tennessee.

INTEREST EXPENSE. Interest expense remained relatively unchanged from year to year.

NET INCOME. Net income for the First American Business was $6.3 million for the year ended December 31, 1995 compared with $7.2 million for the year ended December 31, 1994, a decrease of $871,000, or 12.1%.

LIQUIDITY AND CAPITAL RESOURCES

The First American Business's cash provided from operations was $368,000 and $7.3 million for the nine months ended September 30, 1996 and 1995, respectively, and $9.3 million and $9.8 million for the years ended December 31, 1995 and 1994, respectively. The decrease of $6.9 million for the nine months ended September 30, 1996, was primarily attributable to a decrease in net income of $6.6 million.

The First American Business's cash used in investing activities was $1.0 million and $3.9 million for the nine months ended September 30, 1996 and 1995, respectively, a decrease of $2.9 million. Cash used in investing activities was $3.8 million and $2.5 million for the years ended December 31, 1995 and 1994, respectively. The decrease for the nine months ended September 30, 1996 was primarily attributable to a decrease in property and equipment purchases and a decrease in purchases of minority interests of $789,000 and $1.8 million, respectively.

The First American Business provided $229,000 and used $3.7 million for financing activities for the nine months ended September 30, 1996 and 1995, respectively, an increase in cash provided of $3.9 million. The First American Business used $4.9 million and $7.2 million in cash for financing activities in 1995 and 1994, respectively. The increase for the nine months ended September 30, 1996 was primarily attributable to a decrease in payments to John H. Phipps, Inc. of $4.2 million which was partially offset by repayments of indebtedness net of borrowings and an increase in distributions to minority interests of $95,000 and $204,000, respectively.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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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, 1996 and 1995 and the related consolidated statements of income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 1996. 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, 1996 and 1995, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 1996, in conformity with generally accepted accounting principles.

Ernst & Young LLP

Atlanta, Georgia
January 27, 1997 except for Pending Acquisitions of
Note C, as to which the date is February 13, 1997

GRAY COMMUNICATIONS SYSTEMS, INC.

CONSOLIDATED BALANCE SHEETS

	DECEMBER 31,	
	1996	1995
ASSETS		
Current assets (NOTE D):		
Cash and cash equivalents	$ 1,051,044	$ 559,991
Trade accounts receivable, less allowance for doubtful accounts of $1,450,000 and $450,000, respectively	17,373,839	9,560,274
Recoverable income taxes	1,747,687	1,347,007
Inventories	624,118	553,032
Current portion of program broadcast rights	2,362,742	1,153,058
Other current assets	379,793	263,600
Total current assets	23,539,223	13,436,962
Property and equipment (NOTES B, C AND D):		
Land	785,682	758,944
Buildings and improvements	11,253,559	8,630,694
Equipment	41,954,501	28,229,255
	53,993,742	37,618,893
Allowance for depreciation	(18,209,891)	(20,601,819)
	35,783,851	17,017,074
Other assets (NOTE D):		
Deferred acquisition costs	-0-	3,330,481
Deferred loan costs	9,141,262	1,232,261
Goodwill and other intangibles (NOTE C)	228,692,018	42,004,050
Other	1,507,488	1,219,650
	239,340,768	47,786,442
	$ 298,663,842	$ 78,240,478

GRAY COMMUNICATIONS SYSTEMS, INC.

CONSOLIDATED BALANCE SHEETS

	DECEMBER 31,	
	1996	1995
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Trade accounts payable (includes $1,000,000 and $670,000 payable to Bull Run Corporation, respectively)	$ 6,043,062	$ 3,752,742
Employee compensation and benefits	7,152,786	4,213,639
Accrued expenses	1,059,769	560,877
Accrued interest	4,858,775	1,064,491
Current portion of program broadcast obligations	2,862,434	1,205,784
Deferred revenue	1,764,509	-0-
Current portion of long-term debt	140,000	2,861,672
Total current liabilities	23,881,335	13,659,205
Long-term debt (NOTE D)	173,228,049	51,462,645
Other long-term liabilities:		
Program broadcast obligations, less current portion	545,889	109,971
Supplemental employee benefits (NOTE E)	1,357,275	2,212,685
Deferred income taxes (NOTE H)	-0-	201,348
Deferred interest swap (NOTE D)	191,055	-0-
Other acquisition related liabilities (NOTES C AND D)	4,234,723	1,609,026
	6,328,942	4,133,030
Commitments and contingencies (NOTES C, D AND J)		
Stockholders' equity (NOTES C, D AND F)		
Serial Preferred Stock, no par value; authorized 20,000,000 shares; issued 2,000 and -0- shares, respectively ($20,000,000 aggregate liquidation value)	20,000,000	-0-
Class A Common Stock, no par value; authorized 15,000,000 shares; issued 5,155,331 and 5,082,756 shares, respectively	7,994,235	6,795,976
Class B Common Stock, no par value; authorized 15,000,000 shares; issued 3,500,000 and -0- shares, respectively	66,065,762	-0-
Retained earnings	10,543,940	8,827,906
	104,603,937	15,623,882
Treasury Stock at cost, Class A Common, 663,180 shares	(6,638,284)	(6,638,284)
Treasury Stock at cost, Class B Common, 172,300 shares	(2,740,137)	-0-
	95,225,516	8,985,598
	$ 298,663,842	$ 78,240,478

See accompanying notes.

GRAY COMMUNICATIONS SYSTEMS, INC.

CONSOLIDATED STATEMENTS OF INCOME

	YEAR ENDED DECEMBER 31,		
	1996	1995	1994
Operating revenues:			
Broadcasting (less agency commissions)	$ 54,981,317	$ 36,750,035	$ 22,826,392
Publishing	22,845,274	21,866,220	13,692,073
Paging	1,478,608	-0-	-0-
	79,305,199	58,616,255	36,518,465
Expenses:			
Broadcasting	32,438,405	23,201,990	14,864,011
Publishing	17,949,064	20,016,137	11,198,011
Paging	1,077,667	-0-	-0-
Corporate and administrative	3,218,610	2,258,261	1,958,449
Depreciation	4,077,696	2,633,360	1,745,293
Amortization of intangible assets	3,584,845	1,325,526	396,342
Non-cash compensation paid in common stock (NOTE E)	880,000	2,321,250	80,000
	63,226,287	51,756,524	30,242,106
	16,078,912	6,859,731	6,276,359
Miscellaneous income and expense, net (NOTE B)	5,704,582	143,612	188,307
	21,783,494	7,003,343	6,464,666
Interest expense	11,689,053	5,438,374	1,922,965
INCOME BEFORE INCOME TAXES AND EXTRAORDINARY CHARGE	10,094,441	1,564,969	4,541,701
Federal and state income taxes (NOTE H)	4,416,000	634,000	1,776,000
INCOME BEFORE EXTRAORDINARY CHARGE	5,678,441	930,969	2,765,701
Extraordinary charge on extinguishment of debt, net of applicable income tax benefit of $2,157,000	3,158,960	-0-	-0-
NET INCOME	2,519,481	930,969	2,765,701
Preferred dividends	376,849	-0-	-0-
NET INCOME AVAILABLE TO COMMON STOCKHOLDERS	$ 2,142,632	$ 930,969	$ 2,765,701
Average outstanding common shares--primary	5,625,548	4,481,317	4,689,453
Average outstanding common shares--fully diluted	5,643,725	4,498,865	4,689,453
Primary and fully diluted earnings per common share			
Income before extraordinary charge available to common stockholders	$ .94	$ .21	$ .59
Extraordinary charge	(.56)	-0-	-0-
NET INCOME AVAILABLE TO COMMON STOCKHOLDERS	$ .38	$ .21	$ .59

See accompanying notes.

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

	PREFERRED STOCK		CLASS A COMMON STOCK		CLASS B COMMON STOCK	
	SHARES	AMOUNT	SHARES	AMOUNT	SHARES	AMOUNT
Balance at December 31, 1993..........	-0-	$ -0-	4,613,625	$ 1,336,071	-0-	$ -0-
Net income..........	-0-	-0-	-0-	-0-	-0-	-0-
Class A Common Stock Cash dividends ($.07 per share)...........	-0-	-0-	-0-	-0-	-0-	-0-
Purchase of Class A Common Stock (NOTE F)................	-0-	-0-	-0-	-0-	-0-	-0-
Issuance of Class A Common Stock:						
401(k) Plan (NOTE I)..............	-0-	-0-	3,160	32,676	-0-	-0-
Rockdale Acquisition.....	-0-	-0-	225,000	2,025,000	-0-	-0-
Balance at December 31, 1994..........	-0-	-0-	4,841,785	3,393,747	-0-	-0-
Net income..........	-0-	-0-	-0-	-0-	-0-	-0-
Class A Common Stock Cash dividends ($.08 per share)...........	-0-	-0-	-0-	-0-	-0-	-0-
Issuance of Class A Common Stock (NOTES C, E, F, G AND I):						
401(k) Plan.......	-0-	-0-	18,354	298,725	-0-	-0-
Directors' Stock Plan............	-0-	-0-	23,500	238,919	-0-	-0-
Non-qualified Stock Plan......	-0-	-0-	5,000	48,335	-0-	-0-
Gwinnett Acquisition.....	-0-	-0-	44,117	500,000	-0-	-0-
Restricted Stock Plan............	-0-	-0-	150,000	2,081,250	-0-	-0-
Amortization of Restricted Stock Plan deferrals....	-0-	-0-	-0-	-0-	-0-	-0-
Income tax benefits relating to stock plans.............	-0-	-0-	-0-	235,000	-0-	-0-
Balance at December 31, 1995..........	-0-	-0-	5,082,756	6,795,976	-0-	-0-
Net income..........	-0-	-0-	-0-	-0-	-0-	-0-
Common Stock Cash dividends:						
Class A ($.08 per share)..........	-0-	-0-	-0-	-0-	-0-	-0-
Class B ($.02 per share)..........	-0-	-0-	-0-	-0-	-0-	-0-
Purchase of Class B Common Stock (NOTE F)................	-0-	-0-	-0-	-0-	-0-	-0-
Issuance of Class A Common Stock (NOTES F, G AND I):...............						
401(k) Plan.......	-0-	-0-	13,225	262,426	-0-	-0-
Directors Stock Plan............	-0-	-0-	22,500	228,749	-0-	-0-
Non-qualified Stock Plan......	-0-	-0-	36,850	358,417	-0-	-0-
Preferred Stock Dividends.........	-0-	-0-	-0-	-0-	-0-	-0-
Issuance of Class A Common Stock Warrants (NOTES C AND F)............	-0-	-0-	-0-	2,600,000	-0-	-0-
Issuance of Series A Preferred Stock in exchange for Subordinated Note (NOTES C AND F)...	1,000	10,000,000	-0-	(2,383,333)	-0-	-0-
Issuance of Series B Preferred Stock (NOTES C AND F)...	1,000	10,000,000	-0-	-0-	-0-	-0-
Issuance of Class B Common Stock, net of expenses (NOTES C AND F).........	-0-	-0-	-0-	-0-	3,500,000	66,065,762
Income tax benefits relating to stock plans.............	-0-	-0-	-0-	132,000	-0-	-0-

Balance at December 31, 1996..........	2,000	$ 20,000,000	5,155,331	$ 7,994,235	3,500,000	$ 66,065,762

	RESTRICTED STOCK DEFERRALS	CLASS A TREASURY STOCK		CLASS B TREASURY STOCK		RETAINED EARNINGS	TOTAL
		SHARES	AMOUNT	SHARES	AMOUNT		
Balance at December 31, 1993..........	$ -0-	-0-	$ -0-	-0-	$ -0-	$ 5,781,879	$ 7,117,950
Net income..........	-0-	-0-	-0-	-0-	-0-	2,765,701	2,765,701
Class A Common Stock Cash dividends ($.07 per share)............	-0-	-0-	-0-	-0-	-0-	(301,954)	(301,954)
Purchase of Class A Common Stock (NOTE F)................	-0-	(663,180)	(6,638,284)	-0-	-0-	-0-	(6,638,284)
Issuance of Class A Common Stock:							
401(k) Plan (NOTE I)..............	-0-	-0-	-0-	-0-	-0-	-0-	32,676
Rockdale Acquisition.....	-0-	-0-	-0-	-0-	-0-	-0-	2,025,000
Balance at December 31, 1994..........	-0-	(663,180)	(6,638,284)	-0-	-0-	8,245,626	5,001,089
Net income..........	-0-	-0-	-0-	-0-	-0-	930,969	930,969
Class A Common Stock Cash dividends ($.08 per share)............	-0-	-0-	-0-	-0-	-0-	(348,689)	(348,689)
Issuance of Class A Common Stock (NOTES C, E, F, G AND I):							
401(k) Plan.......	-0-	-0-	-0-	-0-	-0-	-0-	298,725
Directors' Stock Plan............	-0-	-0-	-0-	-0-	-0-	-0-	238,919
Non-qualified Stock Plan......	-0-	-0-	-0-	-0-	-0-	-0-	48,335
Gwinnett Acquisition.....	-0-	-0-	-0-	-0-	-0-	-0-	500,000
Restricted Stock Plan............	(2,081,250)	-0-	-0-	-0-	-0-	-0-	-0-
Amortization of Restricted Stock Plan deferrals....	2,081,250	-0-	-0-	-0-	-0-	-0-	2,081,250
Income tax benefits relating to stock plans.............	-0-	-0-	-0-	-0-	-0-	-0-	235,000
Balance at December 31, 1995..........	-0-	(663,180)	(6,638,284)	-0-	-0-	8,827,906	8,985,598
Net income..........	-0-	-0-	-0-	-0-	-0-	2,519,481	2,519,481
Common Stock Cash dividends:							
Class A ($.08 per share)..........	-0-	-0-	-0-	-0-	-0-	(357,598)	(357,598)
Class B ($.02 per share)..........	-0-	-0-	-0-	-0-	-0-	(69,000)	(69,000)
Purchase of Class B Common Stock (NOTE F)................	-0-	-0-	-0-	(172,300)	(2,740,137)	-0-	(2,740,137)
Issuance of Class A Common Stock (NOTES F, G AND I):...............							
401(k) Plan.......	-0-	-0-	-0-	-0-	-0-	-0-	262,426
Directors Stock Plan............	-0-	-0-	-0-	-0-	-0-	-0-	228,749
Non-qualified Stock Plan......	-0-	-0-	-0-	-0-	-0-	-0-	358,417
Preferred Stock Dividends.........	-0-	-0-	-0-	-0-	-0-	(376,849)	(376,849)
Issuance of Class A Common Stock Warrants (NOTES C AND F)............	-0-	-0-	-0-	-0-	-0-	-0-	2,600,000
Issuance of Series A Preferred Stock in exchange for Subordinated Note (NOTES C AND F)...	-0-	-0-	-0-	-0-	-0-	-0-	7,616,667
Issuance of Series B Preferred Stock (NOTES C AND F)...	-0-	-0-	-0-	-0-	-0-	-0-	10,000,000
Issuance of Class B Common Stock, net of expenses (NOTES C AND F).........	-0-	-0-	-0-	-0-	-0-	-0-	66,065,762
Income tax benefits relating to stock							

plans.............	-0-	-0-	-0-	-0-	-0-	-0-	132,000
Balance at December 31, 1996..........	$ -0-	(663,180)	$(6,638,284)	(172,300)	$(2,740,137)	$ 10,543,940	$ 95,225,516

See accompanying notes.

GRAY COMMUNICATIONS SYSTEMS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	YEAR ENDED DECEMBER 31,		
	1996	1995	1994
OPERATING ACTIVITIES			
Net income	$ 2,519,481	$ 930,969	$ 2,765,701
Items which did not use (provide) cash:			
Depreciation	4,077,696	2,633,360	1,745,293
Amortization of intangible assets	3,584,845	1,325,526	396,342
Amortization of deferred loan costs	270,813	-0-	-0-
Amortization of program broadcast rights	2,742,712	1,647,035	1,217,976
Amortization of original issue discount on 8% subordinated note	216,667	-0-	-0-
Amortization of deferred interest rate swap settlement liability	(37,292)	-0-	-0-
Write-off of loan acquisition costs from early extinguishment of debt	1,818,840	-0-	-0-
Gain on disposition of television station	(5,671,323)	-0-	-0-
Payments for program broadcast rights	(2,877,128)	(1,776,796)	(1,181,598)
Compensation paid in Common Stock	880,000	2,321,250	80,000
Supplemental employee benefits	(855,410)	(370,694)	(454,703)
Common Stock contributed to 401(k) Plan	262,426	298,725	32,676
Deferred income taxes	(44,000)	863,000	523,000
(Gain) loss on asset sales	201,792	1,652	(21,419)
Changes in operating assets and liabilities:			
Trade accounts receivable	(1,575,723)	(852,965)	(1,444,159)
Recoverable income taxes	(400,680)	(1,347,007)	589,942
Inventories	254,952	(181,034)	(179,930)
Other current assets	(21,248)	(11,208)	(24,361)
Trade accounts payable	2,256,795	1,441,745	(306,493)
Employee compensation and benefits	2,882,379	1,011,667	1,246,726
Accrued expenses	(2,936,155)	(414,087)	(45,335)
Accrued interest	3,794,284	78,536	858,164
Deferred revenue	710,286	-0-	-0-
Net cash provided by operating activities	12,055,009	7,599,674	5,797,822
INVESTING ACTIVITIES			
Acquisitions of newspaper businesses	-0-	(2,084,621)	(3,442,836)
Acquisition of television businesses	(210,944,547)	-0-	(37,492,643)
Disposition of television business	9,480,699	-0-	-0-
Purchases of property and equipment	(3,395,635)	(3,279,721)	(1,767,800)
Proceeds from asset sales	174,401	2,475	103,434
Deferred acquisition costs	-0-	(3,330,481)	-0-
Deferred loan costs	(9,410,078)	-0-	(1,251,287)
Proceeds from disposals of operating units	-0-	-0-	1,222,697
Other	(345,722)	(236,904)	(141,767)
Net cash used in investing activities	(214,440,882)	(8,929,252)	(42,770,202)
FINANCING ACTIVITIES			
Proceeds from borrowings:			
Short-term debt	-0-	1,200,000	-0-
Long-term debt	238,478,310	2,950,000	55,826,260
Repayments of borrowings:			
Short-term debt	-0-	(1,200,000)	(480,000)
Long-term debt	(109,434,577)	(1,792,516)	(11,206,281)
Dividends paid	(426,598)	(348,689)	(301,954)
Class A Common Stock transactions	719,166	522,254	(6,638,284)
Proceeds from equity offering--Class B Common Stock, net of expenses	66,065,762	-0-	-0-
Proceeds from offering of Series B Preferred Stock	10,000,000	-0-	-0-
Proceeds from settlement of interest rate swap agreement	215,000	-0-	-0-
Purchase of Class B Common Stock	(2,740,137)	-0-	-0-
Net cash provided by financing activities	202,876,926	1,331,049	37,199,741
Increase in cash and cash equivalents	491,053	1,471	227,361
Cash and cash equivalents at beginning of year	559,991	558,520	331,159
Cash and cash equivalents at end of year	$ 1,051,044	$ 559,991	$ 558,520

See accompanying notes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

DESCRIPTION OF BUSINESS

The Company's operations, which are located in six southeastern states, include seven television stations, three daily newspapers, two area weekly advertising only direct mail publications, 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 $170,000 at December 31, 1996 and 1995, 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.

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

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 $4.9 million and $1.7 million as of December 31, 1996 and 1995, respectively.

If facts and circumstances indicate that the goodwill may be impaired, an evaluation of continuing value would be performed. If an evaluation is required, the estimated future undiscounted cash flows associated with this asset would be compared to its 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 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 17, 1995, the Board of Directors declared 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.

EARNINGS PER COMMON SHARE

Earnings per common share are based on the weighted average common and common equivalent shares outstanding during the period, determined using the treasury stock method. Common equivalent shares are attributable to a common share award and outstanding stock options and warrants. (SEE NOTES E AND F).

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)

INTEREST SWAP

The Company entered into an interest-rate swap agreement to modify the interest characteristics of a portion of its outstanding debt (SEE NOTE D). The agreement involved the exchange of amounts based on a fixed interest rate for amounts based on variable interest rates over the life of the agreement without an exchange of the notional amount upon which the payments were based. The differential to be paid or received as interest rates changed was accrued and recognized as an adjustment of interest expense related to the debt (the accrual accounting method). Effective May 14, 1996, the Company received a settlement of this interest-rate swap, the effect of which is recognized as an adjustment to interest expense over the remaining life of the original swap agreement term.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company has adopted FASB Statement No. 107, DISCLOSURE ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS, which requires disclosure of fair value, to the extent practical, of certain of the Company's financial instruments. The fair value amounts do not necessarily represent the amount that could be realized in a sale or settlement. The Company's financial instruments are comprised principally of long-term debt and preferred stock.

The estimated fair value of long-term debt at December 31, 1996 and 1995 exceeded book value by $9.6 million and $0, respectively. The fair value of the Preferred Stock at December 31, 1996 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.

IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS

Effective January 1, 1996, the Company adopted Statement No. 121, ACCOUNTING FOR THE IMPAIRMENT OF LONG-LIVED ASSETS AND FOR LONG-LIVED ASSETS TO BE DISPOSED OF ("Statement 121"), which requires impairment losses to be recorded on long-lived assets used in operations when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the asset's carrying amount. Statement 121 also addresses the accounting for long-lived assets which are expected to be disposed. The adoption of Statement 121 did not have a material impact on the Company's financial position.

RECLASSIFICATIONS

Certain amounts in the accompanying consolidated financial statements have been reclassified to conform to the 1996 format.

B. BUSINESS DISPOSITIONS

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

B. BUSINESS DISPOSITIONS (CONTINUED)

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.

C. BUSINESS ACQUISITIONS

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.

1996 ACQUISITIONS

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 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") as a component of its strategy to promote the station's upgraded news product. 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. Based on a preliminary allocation of the purchase price, the excess of the purchase price over the fair value of net tangible assets acquired was approximately $159.8 million. The Company's Board of Directors has agreed to pay Bull Run Corporation ("Bull Run"), a principal stockholder of the Company, a fee equal to $1.4 million for services performed in connection with this acquisition. At December 31, 1996, $1.0 million of this fee remains payable and is included in accounts payable.

The First American Acquisition and the early retirement of the Company's existing bank credit facility and other senior indebtedness (SEE NOTES D AND F), were funded as follows: net proceeds of $66.1 million from the sale of 3,500,000 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 a senior credit facility (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 500,000 shares of the Company's Class A Common Stock at $24 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 interim President and Chief Executive Officer of the Company, and certain of his affiliates. The Company obtained an opinion as to the fairness of the terms of the sale of such Series B Preferred Stock with warrants from an investment banker. The Federal Communications Commission's (the "FCC") approval of the First American Acquisition requires the Company to divest itself of WALB-TV ("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-TV would not be required. The FCC is not expected to complete its rulemaking on this subject until later in 1997. Accordingly, the Company will request, and expects to receive, an extension of the divestiture deadline pending the outcome of the rulemaking proceedings. In order to satisfy applicable FCC requirements with respect to WALB-TV, the Company, subject to FCC

C. BUSINESS ACQUISITIONS (CONTINUED)

approval, intends to swap such assets for assets of one or more television stations of comparable value and with comparable broadcast cash flow in a transaction qualifying for deferred capital gains treatment under the "like-kind exchange" provision of Section 1031 of the Internal Revenue Code of 1986. If the Company is unable to enter into an agreement to effect such a swap by March 31, 1997, the Company will seek FCC approval to transfer the station to a trust with a view towards the trustee effecting a swap or sale of such assets. Under such trust arrangement, which would be subject to the approval of the FCC, the Company would be required to relinquish operating control of the station to a trustee while retaining the economic risks and benefits of ownership. If the Company or such trust is required to effect a sale of WALB-TV, the Company would incur a significant gain and related tax liability, the payment of which could have a material adverse effect on the Company's ability to acquire comparable assets without incurring additional indebtedness.

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

	WALB		WJHG	
	DECEMBER 31,			
	1996	1995	1996	1995
	(UNAUDITED)			
Current assets	$ 2,058	$ 1,996	$ 1,079	$ 821
Property and equipment	1,579	1,806	981	974
Other assets	100	67	55	3
Total assets	$ 3,737	$ 3,869	$ 2,115	$ 1,798
Current liabilities	$ 1,189	$ 762	$ 497	$ 358
Other liabilities	242	228	-0-	-0-
Stockholder's equity	2,306	2,879	1,618	1,440
Total liabilities and stockholder's equity	$ 3,737	$ 3,869	$ 2,115	$ 1,798

Condensed unaudited income statement data for the years ended December 31, 1996, 1995 and 1994 for WALB and WJHG are as follows (in thousands):

	WALB			WJHG		
	YEAR ENDED DECEMBER 31,			YEAR ENDED DECEMBER 31,		
	1996	1995	1994	1996	1995	1994
	(UNAUDITED)					
Broadcasting revenues	$ 10,611	$ 9,445	$ 9,074	$ 5,217	$ 3,843	$ 3,619
Expenses	5,070	4,650	4,458	4,131	3,573	3,502
Operating income	5,541	4,795	4,616	1,086	270	117
Other income	7	17	22	6	60	62
Income before income taxes	5,548	4,812	4,638	1,092	330	179
Net income	$ 3,465	$ 2,984	$ 3,126	$ 685	$ 205	$ 208

C. BUSINESS ACQUISITIONS (CONTINUED)

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 $35.9 million, excluding 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. 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 $32.5 million. In connection with the Augusta Acquisition, the Company's Board of Directors approved the payment of a $360,000 fee to Bull Run.

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 487,500 shares of Class A Common Stock at $17.88 per share, 300,000 shares of which were vested at December 31, 1996. The remainder vests in five equal annual installments of 37,500 shares commencing in 1997. 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 will vest in accordance with the 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 $0.56 per common share) 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.

Unaudited pro forma operating data for the year 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

C. BUSINESS ACQUISITIONS (CONTINUED)
are reasonable under the circumstances at this time. Unaudited pro forma operating data for the year ended December 31, 1996 are as follows (in thousands, except per common share data):

	GRAY	KTVE SALE	FIRST AMERICAN ACQUISITION	PRO FORMA ADJUSTMENTS	ADJUSTED PRO FORMA
			(UNAUDITED)		
Revenues, net	$ 79,305	$ (2,968)	$ 21,203	$ -0-	$ 97,540
Net earnings (loss) before extraordinary charge	$ 5,678	$ (3,173)	$ (1,773)	$ (720)	$ 12
Earnings (loss) per share available to common stockholders before extraordinary charge	$ 0.94				$ (0.17)

Unaudited pro forma operating data for the year ended December 31, 1995 are as follows (in thousands, except per common share data):

	GRAY	AUGUSTA ACQUISITION	KTVE SALE	FIRST AMERICAN ACQUISITION	PRO FORMA ADJUSTMENTS	ADJUSTED PRO FORMA
				(UNAUDITED)		
Revenues, net	$ 58,616	$ 8,660	$ (4,188)	$ 27,321	$ 228	$ 90,637
Net earnings (loss) available to common stockholders	$ 931	$ 2,242	$ (278)	$ 6,348	$ (15,316)	$ (6,073)
Earnings (loss) per share available to common stockholders	$ 0.21					$ (0.77)

The pro forma results presented above include adjustments to reflect (i) the incurrence of interest expense to fund the 1996 Acquisitions, (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 3,500,000 Class B Common shares issued in connection with the First American Acquisition.

1995 ACQUISITIONS

On January 6, 1995, the Company purchased substantially all of the assets of the Gwinnett Post-Tribune and assumed certain liabilities (the "Gwinnett Acquisition"). The assets consisted of office equipment and publishing operations located in Lawrenceville, Georgia. The purchase price of $3.7 million, including assumed liabilities of approximately $370,000, was paid by approximately $1.2 million in

C. BUSINESS ACQUISITIONS (CONTINUED)

cash (financed through long-term borrowings and cash from operations), the issuance of 44,117 shares of the Company's Class A Common Stock (having fair value of $500,000), and $1.5 million payable to the sellers pursuant to non-compete agreements. The excess of the purchase price over the fair value of net tangible assets acquired was approximately $3.4 million. In connection with the Gwinnett Acquisition the Company's Board of Directors approved the payment of a $75,000 fee to Bull Run.

1994 ACQUISITIONS

On September 2, 1994, the Company purchased substantially all of the assets of Kentucky Central Television, Inc. ("Kentucky Central") and assumed certain of its liabilities (the "Kentucky Acquisition"). Kentucky Central operated two television stations, WKYT located in Lexington, Kentucky and WYMT located in Hazard, Kentucky, both of which are affiliates of the CBS television network. The purchase price of approximately $38.1 million, excluding acquisition costs of approximately $2.1 million and assumed liabilities of approximately $2.3 million, was financed primarily through long-term borrowings. The excess of the purchase price over the fair value of net tangible assets acquired was approximately $31.4 million.

On May 31, 1994, the Company purchased substantially all of the assets of Citizens Publishing Company, Inc. and assumed certain of its liabilities (the "Rockdale Acquisition"). The acquired assets consist of land and an office building located in Conyers, Georgia, containing The Rockdale Citizen newspaper and other assets relating to the newspaper publishing business. The purchase price of approximately $4.8 million consisted of a $2.8 million cash payment financed through long-term bank borrowings, and 225,000 shares of the Company's Common Stock (with a fair value of $2.0 million at the closing date). The excess of the purchase price over the fair value of net tangible assets acquired was approximately $4.0 million.

Unaudited pro forma operating data for the year ended December 31, 1994, is presented below, giving effect to the Rockdale Acquisition and the Kentucky Acquisition (collectively the "1994 Acquisitions") as though they had occurred on January 1, 1994.

This unaudited pro forma operating data does not purport to represent what the Company's actual results of operations would have been if the 1994 Acquisitions had occurred on January 1, 1994, and should not serve as a forecast of the Company's operating results for any future periods. The pro forma adjustments are based upon certain assumptions that management believes are reasonable under the circumstances.

Unaudited pro forma operating data for the year ended December 31, 1994 are as follows (in thousands, except per common share data):

	GRAY	KENTUCKY ACQUISITION	ROCKDALE ACQUISITION	PRO FORMA ADJUSTMENTS	ADJUSTED PRO FORMA
			(UNAUDITED)		
Operating revenues	$ 36,518	$ 10,237	$ 980	$ -0-	$ 47,735
Net income	$ 2,766	$ 2,637	$ 46	$ (2,763)	$ 2,686
Earnings per common share	$ 0.59				$ 0.56

C. BUSINESS ACQUISITIONS (CONTINUED)
1994 ACQUISITIONS (CONTINUED)

The pro forma results presented above include adjustments to reflect (i) the incurrence of interest expense to fund the 1994 Acquisitions, (ii) depreciation and amortization of assets acquired, and (iii) the income tax effect of such pro forma adjustments. Average outstanding shares used to calculate earnings per share from continuing operations for 1994 include the 225,000 shares issued in connection with the Rockdale Acquisition.

PENDING ACQUISITIONS

In January 1997, the Company agreed to acquire Gulflink Communications, Inc. of Baton Rouge, Louisiana. The operations include nine transportable satellite uplink trucks. The purchase price is estimated at approximately $5.8 million, including a cash payment of $3.7 million and assumed liabilities of approximately $2.1 million. The transaction, which is expected to close by April 1997, is subject to approval by the appropriate regulatory agencies. The Company plans to fund the costs of this acquisition through its Senior Credit Facility.

In February 1997, the Company announced that it had signed a letter of intent with Raycom-US, Inc. to purchase the assets of WITN-TV ("WITN"). The purchase price is estimated at approximately $39.5 million plus the assumption of certain liabilities. WITN is currently owned by AFLAC Broadcast Group, Inc., which has entered into a contract to sell the stock of WITN, Inc. to Raycom. Gray's letter of intent with Raycom is conditional upon the completion of the stock purchase by Raycom. WITN operates on Channel 7 and is the NBC affiliate in the Greenville-Washington-New Bern, North Carolina market. The purchase of WITN is subject to a number of conditions, including the negotiation and execution of a definitive purchase agreement. In connection with the proposed purchase of the assets of WITN, the Company will pay Bull Run a finder's fee equal to 1% of the purchase price for services performed, none of which was due and included in accounts payable at December 31, 1996.

D. LONG-TERM DEBT

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

	DECEMBER 31,	
	1996	1995
10 5/8% Senior Subordinated Notes due 2006	$ 160,000	$ -0-
Senior Credit Facility	12,680	-0-
Senior Note	-0-	25,000
Bank Loan	-0-	28,375
Other	688	950
	173,368	54,325
Less current portion	(140)	(2,862)
	$ 173,228	$ 51,463

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

D. LONG-TERM DEBT (CONTINUED)

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 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 will be full, unconditional and joint and several. All of the current and future direct and indirect subsidiaries of the Company will be guarantors of the 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.

In September 1996, the Company entered into its $125.0 million Senior Credit Facility which is comprised of a term loan (the "Term Commitment") of $71.5 million and a revolving credit facility (the "Revolving Commitment") of $53.5 million. The agreement pursuant to which the Senior Credit Facility was issued contains certain restrictive provisions, which, among other things, limit capital expenditures and additional indebtedness and require minimum levels of cash flows. The Senior Subordinated Note also contains similar restrictive provisions. 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 1.0% or LIBOR plus 3.25%.

The amounts available under the Revolving Commitment will be reduced as follows (in thousands):

1997	$ 7,356
1998	8,025
1999	8,025
2000	8,025
2001	8,025
2002	9,363
2003	4,681
	$ 53,500

The amount borrowed by the Company on December 31, 1998 under the Term Commitment will be converted to a four and one-half year term loan. The principal of the term loan shall be repaid in nineteen consecutive quarterly installments commencing on December 31, 1998. Each of the first five quarterly installments are equal to 2.50% of the principal balance outstanding at December 31, 1998. Each of the

D. LONG-TERM DEBT (CONTINUED)

next thirteen quarterly installments are equal to 3.75% of the principal balance outstanding at December 31, 1998. The nineteenth and final installment due June 30, 2003 will be equal to the remaining balance outstanding and any outstanding interest due on June 30, 2003.

The Company is charged a commitment fee on the excess of the aggregate average daily undisbursed amount of the Revolving Commitment and the Term Commitment over the amount outstanding. At December 31, 1996, the commitment fee was 0.50% per annum.

At December 31, 1996, the Company had approximately $12.7 million outstanding on the Senior Credit Facility. At December 31, 1996, the Company's interest rate for the Senior Credit Facility, was based on a spread over LIBOR and/or Prime, of 2.50% and 0.25%, respectively.

The Senior Subordinated Notes and the Senior Credit Facility are secured by substantially all of the Company's existing and hereafter acquired assets.

The Company entered into an interest rate swap agreement (the "Interest Swap") on June 2, 1995, to effectively convert a portion of its floating rate debt under the Old Credit Facility to a fixed rate basis. The Interest Swap was effective for five years. Approximately $25.0 million of the Company's outstanding long-term debt was subject to this Interest Swap. Effective May 14, 1996, the Company received $215,000 as settlement of this Interest Swap, which is reflected as a reduction of interest expense over the remaining life of the original five-year interest rate swap agreement term. The Company does not currently have any other interest rate swap agreements.

At December 31, 1996, retained earnings of approximately $1.4 million and $1.0 million were available for dividends to holders of preferred and common stock, respectively.

Aggregate minimum principal maturities on long-term debt as of December 31, 1996, were as follows (in thousands):

1997	$ 140
1998	134
1999	115
2000	53
2001	57
Thereafter	172,869
	$ 173,368

The Company made interest payments of approximately $7.6 million, $5.4 million, and $1.2 million during 1996, 1995 and 1994, respectively.

In the quarter ended September 30, 1996, the Company recorded an extraordinary charge of $5.3 million ($3.2 million after taxes or $0.56 per 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.

E. 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 122,034 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, $240,000, and $80,000 of expense was recorded in 1996, 1995, and 1994, respectively.

In December 1995, the Company amended an existing employment agreement to pay consulting fees to its former chief executive officer. The Company recorded approximately $596,000 of corporate and administrative expenses during the year ended December 31, 1995 in accordance with the terms of the amended employment agreement. Additionally, in December 1995 the Company issued 150,000 shares of the Company's Class A Common Stock to this former chief executive officer in accordance with his employment agreement which was amended to remove certain restrictions, including, among others, a time requirement for continued employment. Compensation expense of approximately $2.1 million was recognized in 1995 for the 150,000 shares of Class A Common Stock issued pursuant to this agreement.

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

	DECEMBER 31,		
	1996	1995	1994
Beginning liability	$ 2,938	$ 2,518	$ 2,960
Provision	918	976	184
Forfeitures	-0-	(169)	(266)
Net (income) expense	918	807	(82)
Payments	(698)	(387)	(360)
Net change	220	420	(442)
Ending liability	3,158	2,938	2,518
Less current portion	(1,801)	(725)	(175)
	$ 1,357	$ 2,213	$ 2,343

F. STOCKHOLDERS' EQUITY

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

F. STOCKHOLDERS' EQUITY (CONTINUED)

cash dividends on an equal per share basis. In September 1996, the Company issued 1,000 shares each of Series A and Series B Preferred Stock relating to the financing arrangements for the First American Acquisition.

As part of the financing for the Augusta Acquisition, funding was obtained from the 8% Note, which included the issuance of detachable warrants to Bull Run to purchase 487,500 shares of Class A Common Stock at $17.88 per share, 300,000 shares of which are currently vested, with the remainder vesting in five equal annual installments commencing in 1997. 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 will vest in accordance with their original schedule 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, the Company also issued 1,000 shares of Series B Preferred Stock, with warrants to purchase an aggregate of 500,000 shares of Class A Common Stock at an exercise price of $24.00 per share. Of these warrants 300,000 vested upon issuance, with the remaining warrants vesting in five equal annual installments commencing on the first anniversary 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 interim President and Chief Executive Officer of the Company, and certain of his affiliates. The Company has obtained a written opinion as to the fairness of the terms of the sale of such Series B Preferred Stock and warrants from an investment banker. 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.

On September 24, 1996, the Company completed a public offering of 3.5 million shares of its Class B Common Stock at an offering price of $20.50 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 has a Stock Purchase Plan which allows outside directors to purchase up to 7,500 shares of the Company's Common Stock directly from the Company before the end of January following each calendar year. The purchase price per share approximates the market price of the Common Stock at the time of the grant. During 1996, 1995 and 1994, certain directors purchased an aggregate of 22,500, 23,500, and -0- shares of Class A Common Stock, respectively, under this plan.

In November 1996, the Company's Board of Directors authorized the purchase of up to one million shares of the Company's 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. In the fourth quarter of 1996, the Company purchased 172,300 shares of its Class B Common Stock under this authorization. These treasury shares were purchased at prevailing market prices with an average effective price of $15.90 per share and were funded from the Company's operating cash flow.

F. STOCKHOLDERS' EQUITY (CONTINUED)

On December 1, 1994, the Company repurchased 663,180 shares of its Class A Common Stock at a price of $10.00 per share for a total purchase price before expenses, of $6.63 million. The trading value of the Class A Common Stock on the NASDAQ Small Cap Issues Market was $10.83 on December 1, 1994. The Class A Common Stock was purchased from The Prudential Insurance Company of America and Sandler Associates (420,000 and 243,180 shares, respectively). The purchase was funded by a bank loan.

G. LONG-TERM INCENTIVE PLAN AND STOCK PURCHASE PLAN

The Company has a long-term incentive plan (the "Incentive Plan") under which 200,000 shares of the Company's Class A Common Stock and 400,000 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, 1996, have been granted at a price which approximates fair market value on the date of the grant.

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.

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 B Common Stock. Therefore, the options granted in 1996, were made with Class B Common Stock.

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 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 grant, no compensation expense is recognized.

Pro forma information regarding net income and earnings per share is required by SFAS No. 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 that Statement. 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 1996 and 1995, respectively: risk-free interest rates of 5.43% and 6.06%; a dividend yield of 0.50% and 0.53%; volatility factors of the expected market price of the Company's Class A Common Stock of 0.33 and 0.26; and a weighted average expected life of the options of 2.0 and 2.7 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

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

	1996	1995
Pro forma income before extraordinary charge available to common stockholders	$ 5,190	$ 792
Primary and fully diluted pro forma earnings per common share:	$ 0.92	$ 0.18

A summary of the Company's stock option activity for Class A common shares, and related information for the years ended December 31 follows (in thousands, except weighted average exercise price data):

	YEAR ENDED DECEMBER 31,					
	1996		1995		1994	
	OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE	OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE	OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE
Stock options outstanding-- beginning of year	263	$ 12.37	199	$ 9.80	89	$ 9.67
Options granted	-0-		111	16.14	126	9.87
Options exercised	(52)	9.93	(29)	10.08	-0-	-0-
Options forfeited	(6)	12.44	(18)	10.45	(16)	9.67
Options expired	(7)	10.17	-0-	-0-	-0-	-0-
Stock options outstanding--end of year	198	$ 11.54	263	$ 12.37	199	$ 9.80
Exercisable at end of year	164	$ 13.06	86	$ 9.84	-0-	$ -0-
Weighted-average fair value of options granted during the year				$ 3.37		

Exercise prices for Class A Common Stock options outstanding as of December 31, 1996 ranged from $9.67 to $13.33 for the Incentive Plan and $19.25 for the Stock Purchase Plan. The weighted-average remaining contractual life of the Class A Common Stock options outstanding for the Incentive Plan and Stock Purchase Plan is 2.3 and 0.1 years, respectively.

During the year ended December 31, 1996, the Company granted options for the purchase of 68,000 shares of Class B Common Stock at a price of $15.88 per share, none of which are exercisable at year end. The weighted average fair value of these options was $3.22 per option. The weighted-average remaining contractual life of the Class B Common Stock options outstanding for the Incentive Plan and Stock Purchase Plan is 5.0 and 1.1 years, respectively.

H. 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,		
	1996	1995	1994
Current			
Federal	$ 1,462	$ (253)	$ 1,093
State	841	24	160
Deferred	(44)	863	523
	$ 2,259	$ 634	$ 1,776

The total provision for income taxes for 1996 included a tax benefit of $2,157,000 which related to an extraordinary charge on extinguishment of debt.

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

	1996	1995
Deferred tax liabilities:		
Net book value of property and equipment	$ 1,165	$ 1,069
Goodwill	2,370	890
Other	120	120
Total deferred tax liabilities	3,655	2,079
Deferred tax assets:		
Liability under supplemental retirement plan	1,241	1,127
Allowance for doubtful accounts	619	195
Difference in basis of assets held for sale	941	941
State and local operating loss carryforwards	1,164	123
Other	511	245
Total deferred tax assets	4,476	2,631
Valuation allowance for deferred tax assets	(753)	(753)
Net deferred tax assets	3,723	1,878
Deferred tax assets (liabilities) net	$ 68	$ (201)

H. INCOME TAXES (CONTINUED)

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,		
	1996	1995	1994
Statutory rate applied to income	$ 1,625	$ 532	$ 1,544
State and local taxes, net of federal tax benefits	(7)	91	195
Permanent difference relating to sale of KTVE	602	-0-	-0-
Other items, net	39	11	37
	$ 2,259	$ 634	$ 1,776

The Company made income tax payments of approximately $3.6 million, $742,000 and $1.5 million during 1996, 1995 and 1994, respectively. At December 31, 1996, the Company had current recoverable income taxes of approximately $1.7 million.

I. 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 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 net pension expense includes the following (in thousands):

	YEAR ENDED DECEMBER 31,		
	1996	1995	1994
Service costs--benefits earned during the year	$ 360	$ 221	$ 204
Interest cost on projected benefit obligation	409	384	359
Actual return on plan assets	(574)	(655)	(91)
Net amortization and deferral	126	187	(338)
Net pension expense	$ 321	$ 137	$ 134
Assumptions:			
Discount rate	7.0%	8.0%	7.0%
Expected long-term rate of return on assets	7.0%	8.0%	7.0%
Estimated rate of increase in compensation levels	5.0%	6.0%	5.0%

I. RETIREMENT PLANS (CONTINUED)

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

	DECEMBER 31, 1996	DECEMBER 31, 1995
Actuarial present value of accumulated benefit obligation is as follows:		
Vested	$ 5,675	$ 5,308
Other	291	135
	$ 5,966	$ 5,443
Plan assets at fair value, primarily mutual funds and an unallocated insurance contract	$ 6,282	$ 5,680
Projected benefit obligation	(6,483)	(5,904)
Plan assets (less than) projected benefit obligation	(201)	(224)
Unrecognized net loss	72	190
Unrecognized net asset	(300)	(355)
Pension liability included in consolidated balance sheet	$ (429)	$ (389)
Assumptions:		
Discount rate	7.0%	7.0%
Estimated rate of increase in compensation levels	5.0%	5.0%

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.

Employee contributions to the Capital Accumulation Plan, not to exceed 6% of the employees' gross pay, are matched by Company contributions. Since the Capital Accumulation Plan's inception, the Company's percentage match has been made by a contribution of the Company's Class A Common Stock, in an amount declared by the Company's Board of Directors before the beginning of each plan year. The Company's percentage match was 50% for the years ended December 31, 1996 and 1995 and the three months ended December 31, 1994. The Company contributions vest, based upon each employee's number of years of service, over a period not to exceed five years.

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 allows 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 200,000 shares of the Company's Class B Common Stock for issuance under the Capital Accumulation Plan.

Company matching contributions aggregating $262,426, $298,725 and $32,676 were charged to expense for 1996, 1995 and 1994, respectively, for the issuance of 13,225, 18,354 and 3,160 shares, respectively of the Company's Class A Common Stock.

J. 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, 1996, 1995 and 1994 were $501,000, $267,000 and $139,000, 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
1997	$ 884	$ 1,374	$ 2,258
1998	731	1,692	2,423
1999	535	1,299	1,834
2000	141	548	689
2001	92	0	92
Thereafter	540	0	540
	$ 2,923	$ 4,913	$ 7,836

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.

K. INFORMATION ON BUSINESS SEGMENTS

The Company operates in three business segments: broadcasting, publishing and paging. The broadcasting segment operates seven television stations at December 31, 1996. The publishing segment operates three daily newspapers in three different markets, and two area weekly advertising only direct mail publications in southwest Georgia and north Florida. The paging operations are located in Florida,

K. INFORMATION ON BUSINESS SEGMENTS (CONTINUED)

Georgia and Alabama. The following tables present certain financial information concerning the Company's three operating segments (in thousands).

	YEAR ENDED DECEMBER 31,		
	1996	1995	1994
	(IN THOUSANDS)		
OPERATING REVENUES:			
Broadcasting	$ 54,981	$ 36,750	$ 22,826
Publishing	22,845	21,866	13,692
Paging	1,479	0	0
	$ 79,305	$ 58,616	$ 36,518

	YEAR ENDED DECEMBER 31,		
	1996	1995	1994
	(IN THOUSANDS)		
OPERATING PROFIT:			
Broadcasting	$ 14,106	$ 7,822	$ 5,241
Publishing	1,980	(962)	1,036
Paging	(7)	0	0
Total operating profit	16,079	6,860	6,277
Miscellaneous income and expense, net	5,704	144	188
Interest expense	(11,689)	(5,439)	(1,923)
Income before income taxes	$ 10,094	$ 1,565	$ 4,542

K. INFORMATION ON BUSINESS SEGMENTS (CONTINUED)

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

	YEAR ENDED DECEMBER 31,		
	1996	1995	1994
	(IN THOUSANDS)		
DEPRECIATION AND AMORTIZATION EXPENSE:			
Broadcasting	$ 5,554	$ 2,723	$ 1,326
Publishing	1,730	1,190	690
Paging	329	0	0
	7,613	3,913	2,016
Corporate	50	46	126
Total depreciation and amortization expense	$ 7,663	$ 3,959	$ 2,142
CAPITAL EXPENDITURES:			
Broadcasting	$ 2,674	$ 2,285	$ 1,330
Publishing	692	973	366
Paging	0	0	0
	3,366	3,258	1,696
Corporate	30	22	72
Total capital expenditures	$ 3,396	$ 3,280	$ 1,768

	YEAR ENDED DECEMBER 31,		
	1996	1995	1994
	(IN THOUSANDS)		
IDENTIFIABLE ASSETS:			
Broadcasting	$ 245,614	$ 54,022	$ 53,173
Publishing	16,301	18,170	11,878
Paging	23,764	0	0
	285,679	72,192	65,051
Corporate	12,985	6,048	3,738
Total identifiable assets	$ 298,664	$ 78,240	$ 68,789

L. SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

YEAR ENDED DECEMBER 31, 1996	FISCAL QUARTERS FIRST	SECOND	THIRD	FOURTH
	(IN THOUSANDS, EXCEPT FOR PER SHARE DATA)			
Operating revenues	$ 17,027	$ 18,487	$ 16,699	$ 27,092
Operating income	2,678	4,633	2,381	6,387
Income before extraordinary charge	311	1,490	2,947	930
Extraordinary charge	0	0	3,159	0
Net income (loss)	311	1,490	(212)	930
Net income (loss) available to common stockholders	311	1,490	(239)	580
Primary earnings (loss) per share				
Income before extraordinary charge available to common stockholders	0.07	0.32	0.62	0.07
Extraordinary charge	0.00	0.00	(0.67)	0.00
Net income (loss) available to common stockholders	0.07	0.32	(0.05)	0.07
Fully diluted earnings (loss) per share				
Income before extraordinary charge available to common stockholders	0.07	0.31	0.62	0.07
Extraordinary charge	0.00	0.00	(0.67)	0.00
Net income (loss) available to common stockholders	0.07	0.31	(0.05)	0.07

YEAR ENDED DECEMBER 31, 1995	FISCAL QUARTERS FIRST	SECOND	THIRD	FOURTH
	(IN THOUSANDS, EXCEPT FOR PER SHARE DATA)			
Operating revenues	$ 13,150	$ 15,157	$ 13,826	$ 16,483
Operating income	1,991	2,666	1,307	895
Net income (loss)	404	778	15	(266)
Primary net income (loss) per share	0.09	0.18	0.00	(0.06)
Fully diluted net income (loss) per share	0.09	0.17	0.00	(0.06)

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 1996 includes the KTVE Sale and an extraordinary charge. As a result of the KTVE Sale, the Company recognized a pre-tax gain of approximately $5.7 million and estimated income taxes of approximately $2.8 million (SEE NOTE B). The Company recorded an extraordinary charge on extinguishment of debt of $5.3 million and an income tax benefit of $2.2 million (SEE NOTE D).

On August 17, 1995, the Board of Directors declared 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 per common share data have been adjusted to give effect to the stock split.

REPORT OF INDEPENDENT AUDITORS

The Board of Directors
John H. Phipps, Inc.

We have audited the accompanying statements of operations and cash flows of the Broadcasting and Paging Operations of John H. Phipps, Inc. (see Note A) for the nine month period ended September 30, 1996 and the years ended December 31, 1995 and 1994. These financial statements are the responsibility of the management of John H. Phipps, Inc. 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 statements of operations and cash flows for the nine month period ended September 30, 1996 and the years ended December 31, 1995 and 1994 present fairly, in all material respects, the results of operations and cash flows of the Broadcasting and Paging Operations of John H. Phipps, Inc. for the nine month period ended September 30, 1996 and the years ended December 31, 1995 and 1994 in conformity with generally accepted accounting principles.

Ernst & Young LLP

Atlanta, Georgia
February 12, 1997

BROADCASTING AND PAGING OPERATIONS
OF
JOHN H. PHIPPS, INC.

STATEMENTS OF OPERATIONS

	NINE MONTHS ENDED SEPTEMBER 30,	YEAR ENDED DECEMBER 31,	
	1996	1995	1994
Revenues:			
Broadcast revenues, net	$ 15,738,160	$ 20,768,121	$ 20,209,523
Paging operations	4,040,113	4,897,522	4,276,640
Production and other revenues	1,425,066	1,655,940	1,314,779
	21,203,339	27,321,583	25,800,942
Expenses:			
Operating, technical and programming	4,490,553	5,449,435	5,306,801
Selling, general and administrative	7,577,979	7,693,715	7,056,510
Amortization of program broadcast rights	695,835	844,815	1,021,395
Depreciation and amortization	2,300,836	3,120,442	2,672,209
Pension credit (NOTE D)	(113,000)	(449,000)	(409,000)
Management fees (NOTE F)	7,954,224	3,280,354	2,485,423
	22,906,427	19,939,761	18,133,338
	(1,703,088)	7,381,822	7,667,604
Interest	278,511	498,714	479,852
Other expense (income), net	(56,632)	(12,526)	(666,657)
Income (loss) before minority interests	(1,924,967)	6,895,634	7,854,409
Minority interests	151,795	(547,045)	(635,302)
Net income (loss)	$ (1,773,172)	$ 6,348,589	$ 7,219,107
Supplemental unaudited pro-forma information (NOTE E):			
Net income (loss), as above	$ (1,773,172)	$ 6,348,589	$ 7,219,107
Pro-forma provision for income tax expense (benefit)	(673,800)	2,412,500	2,743,300
Pro-forma net income (loss)	$ (1,099,372)	$ 3,936,089	$ 4,475,807

See accompanying notes.

BROADCASTING AND PAGING OPERATIONS
OF
JOHN H. PHIPPS, INC.

STATEMENTS OF CASH FLOWS

	NINE MONTHS ENDED SEPTEMBER 30,	YEAR ENDED DECEMBER 31,	
	1996	1995	1994
OPERATING ACTIVITIES:			
Net income (loss)	$(1,773,172)	$ 6,348,589	$ 7,219,107
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	2,300,836	3,120,442	2,672,209
Loss (gain) on disposition of fixed assets	197,443	(9,023)	(665,047)
Amortization of program broadcast rights	695,835	844,815	1,021,395
Payments of program broadcast rights obligations	(840,859)	(931,004)	(863,344)
Minority interests	(151,795)	547,045	635,302
Changes in operating assets and liabilities:			
Accounts receivable	185,973	(678,024)	(396,373)
Other current assets	(57,236)	(18,442)	(90,846)
Accounts payable and accrued expenses	(320,314)	(101,832)	(206,137)
Other current liabilities	(231,373)	(117,697)	277,681
Deferred paging income	362,696	254,155	204,356
Net cash provided by operating activities	368,034	9,259,024	9,808,303
INVESTING ACTIVITIES:			
Purchases of minority interests	-0-	(1,780,794)	(818,000)
Purchases of property and equipment	(2,171,271)	(3,187,596)	(3,353,068)
Proceeds from disposition of property and equipment	1,201,962	1,140,520	1,665,504
Net cash used in investing activities	(969,309)	(3,827,870)	(2,505,564)
FINANCING ACTIVITIES:			
Indebtedness:			
Borrowings	3,409,147	3,422,586	5,761,977
Repayments	(4,723,928)	(4,677,653)	(6,239,305)
Distributions to minority interests	(632,429)	(505,532)	(539,596)
Other	(12,109)	(126,128)	(156,475)
Payments by (to) J.H. Phipps, Inc., net	2,188,422	(3,019,622)	(6,060,036)
Net cash provided by (used) in financing activities	229,103	(4,906,349)	(7,233,435)
Increase (decrease) in cash and cash equivalents	(372,172)	524,805	69,304
Cash and cash equivalents at beginning of period	620,015	95,210	25,906
Cash and cash equivalents at end of period	$ 247,843	$ 620,015	$ 95,210

See accompanying notes.

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 1996

A. BASIS OF PRESENTATION

On September 30, 1996, Gray Communications Systems, Inc. ("Gray") purchased substantially all of the assets and assumed certain liabilities and commitments of certain operations owned, or controlled by J.H. Phipps, Inc. ("Phipps"). The operations include (i) two CBS affiliates WCTV-TV, a VHF television station located in Tallahassee, Florida, and WKXT-TV, a VHF television station located in Knoxville, Tennessee, (the "Broadcast Operations"); and (ii) a portable communications and paging service business (the "Paging Operations"), with operations in three southeastern states (collectively referred to as the "Broadcasting and Paging Operations").

At September 30, 1996, prior to the purchase by Gray, a Phipps subsidiary held the 74.5% interest in the partnership that owns WKXT-TV (the "Knoxville Partnership"). The Knoxville Partnership's remaining 25.5% interest was owned by four limited partners. Phipps' ownership of the Knoxville Partnership increased, from 70.0% during 1994 to the 74.5% ownership interest at September 30, 1996, through purchases of certain minority interests for approximately $818,000 in 1994 and approximately $1.78 million in 1995. Goodwill recorded related to these acquisitions of minority interests was approximately $1.78 million and $200,000 in 1995 and 1994, respectively.

Phipps also owns and operates other businesses which are not being purchased by Gray. The accompanying financial statements are intended to present the Broadcasting and Paging Operations which were acquired by Gray and do not include the other operations of Phipps.

The accompanying financial statements are derived from the historical books and records of Phipps and do not give effect to any purchase accounting adjustments which Gray may record as a result of its acquisition. Certain current liabilities and long-term debt of the Broadcasting and Paging Operations were not assumed by Gray.

B. ACCOUNTING POLICIES

USE OF ESTIMATES

The preparation of the 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.

REVENUE RECOGNITION

Broadcasting revenues are recognized as the related advertising broadcast services are rendered. Agency commissions are deducted from gross revenue, reflecting the net amount due for broadcast services. Revenues from paging and communications services are recognized over the applicable service period. Revenues from mobile broadcasting contracts are recognized as services are provided.

CONCENTRATION OF CREDIT RISK

The Broadcast Operations provide advertising air time to national, regional and local advertisers within the geographic areas in which the Broadcast Operations operate. Credit is extended based on an evaluation of the customer's financial condition, and generally advance payment is not required. The Paging Operations provide services to individuals and corporate customers in three southeastern states.

B. ACCOUNTING POLICIES (CONTINUED)

Such services are generally billed in advance. Credit losses for the Broadcasting and Paging Operations are provided for in the financial statements and consistently have been within management's expectations.

BARTER ARRANGEMENTS

The Broadcasting and Paging Operations, in the ordinary course of business, provide services and advertising air time to certain customers in exchange for products or services. In addition, the Broadcasting Operations provide air time to certain program syndicators in exchange for program licenses or reductions in program license fees. Barter transactions are recorded on the basis of the estimated fair market value of the products or services received. Revenue is recognized as the related advertising is broadcast and expenses are recognized when the merchandise or services are received or utilized.

PROGRAM BROADCAST RIGHTS

Rights to programs available for broadcast are initially recorded at 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.

PROPERTY AND EQUIPMENT

Depreciation is computed by the straight-line method over the estimated useful life of the assets for financial reporting purposes and by accelerated methods for income tax purposes.

INTANGIBLE ASSETS

Intangible assets are stated at cost and are amortized using the straight-line method. Goodwill is amortized over 15 to 40 years. Intangible assets other than goodwill, which include broadcasting licenses, network affiliation agreements, and other intangibles carried at an allocated cost based on appraisals are amortized over 15 years. Loan acquisition fees are amortized over the life of the specific agreement.

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

INTEREST SWAP

The Knoxville Partnership had an interest rate swap agreement to modify the interest characteristics of a portion of its outstanding debt. The agreement, which expired during 1995, involved the exchange of amounts based on a fixed interest rate for amounts based on variable interest rates over the life of the agreement without an exchange of the notional amount upon which the payments are based. The differential to be paid or received as interest rates changed was accrued and recognized as an adjustment of interest expense related to the debt (the accrual accounting method). Interest expense (income) adjustments resulting from the interest rate swap were $(2,805) in 1995 and $(986) in 1994.

B. ACCOUNTING POLICIES (CONTINUED)

STOCK BASED COMPENSATION

Phipps accounted for its stock Appreciation Rights Plan (see Note F. PHIPPS' CORPORATE ALLOCATIONS) in accordance with APB Opinion No 25, Accounting for Stock Issued to Employees and related interpretations.

INCOME TAXES

Phipps and its subsidiaries file a consolidated federal income tax return and separate state tax returns. The operating results of the Knoxville Partnership are included in the income tax returns of Phipps based on their percentage ownership. All states where the Broadcast and Paging Operations are located have taxes based on income. Income tax expense for the Broadcasting and Paging Operations are not presented in the accompanying financial statements as such amounts are computed and paid by Phipps. Pro-forma federal and state income taxes for the Broadcast and Paging Operations are calculated on a pro-forma, separate return basis (see Note E. PRO-FORMA INCOME TAXES).

IMPACT OF RECENTLY ADOPTED ACCOUNTING STANDARDS

The Broadcasting and Paging Operations adopted Statement No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" ("Statement 121"), which requires impairment losses to be recorded on long-lived assets used in operations when indicators of impairments are present and the undiscounted cash flows estimated to be generated by those assets are less than the asset's carrying amount. Statement 121 also addresses the accounting for long-lived assets that are expected to be disposed of. The adoption of Statement 121 had no impact on Phipps' financial position.

C. SUPPLEMENTAL FINANCIAL STATEMENT INFORMATION

Cash payments of interest were approximately $256,000, $564,000, and $449,000 in the nine months ended September 30, 1996 and the years ended December 31, 1995 and 1994, respectively.

D. EMPLOYEE BENEFIT PLANS

DEFINED BENEFIT PENSION PLAN

Phipps has a defined benefit pension plan that covers substantially all its full-time employees. Benefits are based on years of service and each employee's compensation during the last ten years of employment (average final pay) up to a maximum of 50% of average final pay.

Benefits become vested upon completion of five years of service. No vesting occurs until the employee has completed five years of service. Phipps' funding policy is to make the maximum contribution allowable by applicable regulations.

Total pension credit for the Broadcasting and Paging Operations was $(113,000), $(449,000) and $(409,000) for the nine months ended September 30, 1996 and the years ended December 31, 1995 and 1994, respectively.

D. EMPLOYEE BENEFIT PLANS (CONTINUED)

The net pension credit included in the accompanying financial statements is calculated as follows (in thousands):

	NINE MONTHS ENDED SEPTEMBER 30,	YEAR ENDED DECEMBER 31,	
	1996	1995	1994
Service costs-benefits earned during the period	$ 35	$ 144	$ 207
Interest cost on projected benefit obligation	76	303	306
Actual return on plan assets	(172)	(687)	(713)
Net amortization and deferral	(52)	(209)	(209)
Net pension credit	$ (113)	$ (449)	$ (409)

The assumptions used to develop the plan's funded status and expenses were as follows:

	NINE MONTHS ENDED SEPTEMBER 30,	YEAR ENDED DECEMBER 31,	
	1996	1995	1994
Assumptions:			
Discount rate	7.5%	7.5%	8.5%
Expected long-term rate of return on assets	9.0%	9.0%	9.0%
Estimated rate of increase in compensation levels	4.5%	4.5%	4.5%

Management of J. H. Phipps, Inc. elected to terminate the defined benefit plan effective March 31, 1996.

401(K) PLAN

Phipps also sponsors two 401(k) plans which provide for discretionary employer contributions equal to 25% of the first 4% of an employee's contribution. Contributions by Phipps to the plans are not material.

MANAGEMENT INCENTIVE BONUS PLAN

Phipps maintains an incentive bonus plan in which managers participate in the performance of the division of Phipps which they manage. Eligible employees are selected by the Board of Directors, and the bonus formula is established and reviewed annually by the Board of Directors and key members of management. Bonuses are calculated in the period following the period earned, at which time one-half of the calculated bonus is paid as compensation. The remaining portion is deferred and earned by the employee over five years based on a vesting schedule adopted by the Board. Employees become eligible to receive payment of deferred amounts upon full vesting. Deferred amounts are recognized as an expense in the year earned. Expenses under this plan were approximately $0, $233,000 and $170,000 in the nine months ended September 30, 1996 and the years ended December 31, 1995 and 1994, respectively.

D. EMPLOYEE BENEFIT PLANS (CONTINUED)

SEPARATION BONUS

Phipps paid substantially all of its employees a separation bonus prior to the sale of the Broadcasting and Paging Operations. Expenses recognized from these separation bonuses were approximately $1,622,000 in the nine months ended September 30, 1996.

E. PRO-FORMA INCOME TAXES

Pro-forma income tax (benefit) expense differed from the amounts computed by applying the statutory federal income tax rate of 34% as a result of the following (in thousands):

	NINE MONTHS ENDED SEPTEMBER 30,	YEAR ENDED DECEMBER 31,	
	1996	1995	1994
Computed "expected" tax rate	$ (603)	$ 2,159	$ 2,454
Increase (decrease) resulting from:			
State income taxes	(71)	253	289
	$ (674)	$ 2,412	$ 2,743

F. PHIPPS' CORPORATE ALLOCATIONS

Interest expense incurred by Phipps is allocated to the Broadcasting and Paging Operations based on specific borrowings. Such allocated interest expense totaled approximately $110,000, $64,500 and $44,000 in the nine months ended September 30, 1996 and the year ended December 31, 1995 and 1994, respectively. Pension expense (credit) is allocated based on an actuarial calculation (see Note D. EMPLOYEE BENEFITS PLANS).

The corporate operations and employees of Phipps provide certain services to the Broadcasting and Paging Operations including executive management, cash management, accounting, tax and other corporate services which are allocated to the operating units of Phipps. Corporate expenses of Phipps, including corporate officers salaries and related employee benefits (see Stock Appreciation Rights and Performance Incentive Agreement below), travel costs, and related support staff and operations, are allocated to the operating units of Phipps. The Broadcasting and Paging Operations were charged $7,954,224, $3,280,354, and $2,485,423 for these services during the nine months ended September 30, 1996 and the years ended December 31, 1995 and 1994, respectively. Bonus expense for two executives of John H. Phipps Inc. was included in the corporate allocation for the period ended September 30, 1996. In the opinion of Phipps' management, these charges have been made on a basis which is reasonable, however, they are not necessarily indicative of the level of expenses which might have been incurred by the Broadcasting and Paging Operations on a stand-alone basis.

Phipps maintains a Stock Appreciation Rights Plan and Performance Incentive Agreement for certain key corporate officers identified by the Board of Directors. The expenses incurred for these plans are allocated to the Broadcasting and Paging Operations as part of the management fee allocation for Phipps' corporate expenses as discussed above. All amounts due under these plans were paid in December 1995. Compensation expense recorded for these plans in the nine months ended September 30, 1996 and the years ended December 31, 1995 and 1994, was approximately $0, $2,861,000 and $2,458,000, respectively.

G. SUMMARY ACTIVITY IN OWNER'S EQUITY

Phipps provides centralized cash management for the Broadcasting and Paging Operations. Substantially all cash receipts are remitted to Phipps and substantially all disbursements are made by Phipps. There are no terms of settlement or interest charges on these intercompany accounts. The amounts due to/from Phipps are included as a part of owner's equity as the Broadcasting and Paging operations are not required to settle these amounts on a current basis.

An analysis of the net transactions in the owner's equity accounts is as follows (in thousands):

	NINE MONTHS ENDED SEPTEMBER 30,	YEAR ENDED DECEMBER 31,	
	1996	1995	1994
Balance of the beginning of period	$ 18,794	$ 15,465	$ 14,306
Payments to Phipps	(5,745)	(7,696)	(8,181)
Phipps' purchase of minority interests	0	1,781	0
Phipps allocations	7,933	2,895	2,121
Net earnings (loss)	(1,773)	6,349	7,219
Balance at the end of period	$ 19,209	$ 18,794	$ 15,465

H. LITIGATION

At September 30, 1996, the Broadcast and Paging Operations are involved in various lawsuits arising in the normal course of their business. However, management believes that any potential losses that may occur from such lawsuits would be covered by insurance and the final outcome of these lawsuits will not have a material effect on the accompanying financial statements.

I. COMMITMENTS

The Paging Operations lease office space, office equipment and paging network towers. The Broadcasting Operations lease land and broadcast towers. The operating leases with unaffiliated entities have various renewal options. Certain of the towers used in the Paging Operations are leased from Phipps. Written contracts do not exist for such leases but management has established that the leases are for five years and are renewable at the end of five years. Rental expense for operating leases was as follows (in thousands):

	PHIPPS	OTHER LESSORS	TOTAL
Nine months ended September 30, 1996	$ 90	$ 418	$ 508
Year Ended December 31,			
1995	83	385	468
1994	64	316	380

J. INFORMATION ON BUSINESS SEGMENTS (IN THOUSANDS):

	NINE MONTHS ENDED SEPTEMBER 30,	YEAR ENDED DECEMBER 31,	
	1996	1995	1994
REVENUES			
Broadcasting Operations	$ 17,163	$ 22,424	$ 21,524
Paging Operations	4,040	4,898	4,277
Total revenues	$ 21,203	$ 27,322	$ 25,801
OPERATING (LOSS) PROFIT:			
Broadcasting Operations	$ (229)	$ 7,040	$ 7,287
Paging Operations	(1,474)	342	381
Total operating (loss) profit	$ (1,703)	$ 7,382	$ 7,668
DEPRECIATION AND AMORTIZATION EXPENSE:			
Broadcasting Operations	$ 1,791	$ 2,302	$ 2,015
Paging Operations	510	818	657
Total depreciation and amortization expense	$ 2,301	$ 3,120	$ 2,672
CAPITAL EXPENDITURES:			
Broadcasting Operations	$ 118	$ 1,216	$ 1,515
Paging Operations	2,053	1,972	1,838
Total capital expenditures	$ 2,171	$ 3,188	$ 3,353

Operating profit is total operating revenue less expenses and before miscellaneous income and expense (net), interest expense and minority interests.

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

Not applicable

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Information concerning executive officers, in response to this item, is incorporated from PART I herein. Information concerning directors of the registrant, in response to this item, is hereby incorporated by reference to the information, relating thereto in the Company's proxy statement for its 1997 Annual Meeting of Shareholders.

ITEM 11. EXECUTIVE COMPENSATION

Information concerning executive compensation, in response to this item, is hereby incorporated by reference to the information, relating thereto in the Company's proxy statement for its 1997 Annual Meeting of Shareholders.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Information concerning security ownership of certain beneficial owners and management, in response to this item, is hereby incorporated by reference to the the information, relating thereto in the Company's proxy statement for its 1997 Annual Meeting of Shareholders.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Information concerning Certain Relationships and Related Transactions, in response to this item, is hereby incorporated by reference to the information, relating thereto in the Company's proxy statement for its 1997 Annual Meeting of Shareholders.

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. and the financial statements of the Broadcasting and Paging Operations of John H. Phipps, Inc. (a "predecessor company") are included in item 8:

Audited Consolidated Financial Statements of Gray Communications Systems, Inc. Report of Independent Auditors

Consolidated Balance Sheets at December 31, 1996 and 1995

Consolidated Statements of Income for the years ended December 31, 1996, 1995 and 1994

Consolidated Statements of Stockholders' Equity for the years ended December 31, 1996, 1995 and 1994

Consolidated Statements of Cash Flows for the years ended December 31, 1996, 1995 and 1994

Notes to Consolidated Financial Statements

Audited Consolidated Financial Statements of the Broadcasting and Paging Operations of John H. Phipps, Inc.

Report of Independent Auditors

Consolidated Statements of Operations for the nine months ended September 30, 1996 and the years ended December 31, 1995 and 1994

Consolidated Statements of Cash Flows for the nine months ended September 30, 1996 and the years ended December 31, 1995 and 1994

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.

The following financial statement schedule of the Broadcasting and Paging Operations of John H. Phipps, Inc. 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 October 15, 1996, reporting the purchase of certain assets from First American Media, Inc. used in the operations of WCTV-TV in Tallahassee, Florida/Thomasville, Georgia, WKXT-TV in Knoxville, Tennessee and a satellite production services business and a communications and paging business.

(c) EXHIBITS.

EXHIBIT NO.	DESCRIPTION	PAGE
3.1	Restated Articles of Incorporation of Gray Communications Systems, Inc............................	
3.2	By-Laws of Gray Communications Systems, Inc., as amended...	
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	Loan Agreement dated September 23, 1996 by and among Gray Communications Systems, Inc., as the borrower, KeyBank National Association as agent, NationsBank, N.A. (South) as Co-Agent and CIBC, Inc., CoreStates Bank, N.A., and the Bank of New York (incorporated by reference to Exhibit 4(i) to the Company's Form 8-K, filed October 15, 1996)...	

EXHIBIT NO.	DESCRIPTION	PAGE
4.3	Borrower Security Agreement dated September 30, 1996 by and between Gray Communications Systems, Inc. and KeyBank National Association (incorporated by reference to Exhibit 4(ii) to the Company's Form 8-K, filed October 15, 1996)..	
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	Borrower Pledge Agreement dated September 30, 1996 between Gray Communications Systems, Inc. and KeyBank National Association (incorporated by reference to Exhibit 4(iv) to the Company's Form 8-K, filed October 15, 1996)...	
4.6	Subsidiary Pledge Agreement dated September 30, 1996 by and among WRDW-TV, Inc., WJHG-TV, Inc., WALB-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)..	
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	Employment Agreement, between the Company and John T. Williams (incorporated by reference to Exhibit 19 to the Company's Form 10-Q for the quarter ended March 31, 1992)....................	
10.3	Amendment to employment agreement, between the Company and John T. Williams (incorporated by reference to Exhibit 19(b) to the Company's Form 10-Q for the quarter ended March 31, 1992).....	
10.4	Restricted stock agreement between the Company and John T. Williams (incorporated by reference to Exhibit 19(c) to the Company's Form 10-Q for the quarter ended March 31, 1992).................	
10.5	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)...	
10.6	Asset Purchase Agreement between the Company and The Citizen Publishing Company, Inc. (incorporated by reference to Exhibit 10 to the Company's Form 8-K, dated May 31, 1994).........	
10.7	Asset Purchase Agreement between the Company and Kentucky Central Television, Inc. (incorporated by reference to Exhibit 10 to the Company's Form 8-K, dated September 2, 1994).................	
10.8	Asset Purchase Agreement, dated January 6, 1995, between the Company and Still Publishing, Inc. (incorporated by reference to Exhibit 10(h) to the 1994 Form 10-K)..............................	
10.9	Asset Purchase Agreement, dated April 11, 1995, between the Company, Television Station Partners, L.P. and WRDW Associates (incorporated by reference to Exhibit 10(a) to the Company's 10-Q for the quarter ended June 30, 1995)..	
10.10	Capital Accumulation Plan, effective October 1, 1994 (incorporated by reference to Exhibit 10(i) to the 1994 Form 10-K)...	

EXHIBIT NO.	DESCRIPTION	PAGE
10.11	Employment Agreement, dated September 3, 1994, between the Company and Ralph W. Gabbard (incorporated by reference to Exhibit 10(j) to the 1994 Form 10-K)..............................	
10.12	Asset Purchase Agreement, dated March 15, 1996, by and between the Company and Media Acquisition Partners, L.P. (incorporated by reference to Exhibit 10(l) to the 1995 Form 10-K)...............	
10.13	Warrant, dated January 4, 1996, to purchase 487,500 shares of Class A Common Stock (incorporated by reference to the Note S-1)...	
10.14	Form of amendment to employment agreement between the Company and Ralph W. Gabbard, dated January 1, 1996 (incorporated by reference to Exhibit 10(m) to the 1995 Form 10-K)......................	
10.15	Employment Agreement, dated February 12, 1996 between the Company and Robert A. Beizer (incorporated by reference to the Note S-1)..	
10.16	Separation Agreement between the Company and John T. Williams (incorporated by reference to the Note S-1)...	
10.17	Form of Preferred Stock Exchange and Purchase Agreement between the Company and Bull Run Corporation (incorporated by reference to the Note S-1)..	
10.18	Form of Warrant to purchase 500,000 shares of Class A Common Stock (incorporated by reference to the Note S-1)...	
10.19	Form of amendment to employment agreement between the Company and Robert A. Beizer, dated December 12, 1996...	
10.20	Amendment to the Company's Long Term Incentive Plan...	
10.21	First Amendment to the Company's Capital Accumulation Plan.......................................	
11	Statement re: Computation of Earnings Per Share...	
21	List of Subsidiaries..	
23.1	Consent of Ernst & Young LLP for the financial statements for Gray Communications Systems, Inc....	
23.2	Consent of Ernst & Young LLP for the financial statements for the Broadcasting and Paging Operations of John H. Phipps, Inc...	
27	Financial data schedule for Gray Communications Systems, Inc.....................................	

(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:	By: /S/ J. MACK ROBINSON J. MACK ROBINSON, INTERIM PRESIDENT AND CHIEF EXECUTIVE OFFICER
Date:	By: /S/ WILLIAM A. FIELDER, III WILLIAM A. FIELDER, III, VICE PRESIDENT & CFO (CHIEF FINANCIAL OFFICER)
Date:	By: /S/ SABRA H. COWART SABRA H. COWART, (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:	By: /S/ WILLIAM E. MAYHER, III WILLIAM E. MAYHER, III, CHAIRMAN OF THE BOARD
Date:	By: /S/ J. MACK ROBINSON J. MACK ROBINSON, INTERIM PRESIDENT AND CHIEF EXECUTIVE OFFICER
Date:	By: /S/ RICHARD L. BOGER RICHARD L. BOGER, DIRECTOR
Date:	By: /S/ HILTON H. HOWELL, JR. HILTON H. HOWELL, JR., DIRECTOR
Date:	By: /S/ HOWELL W. NEWTON HOWELL W. NEWTON, DIRECTOR

Date: By: /S/ HUGH NORTON

HUGH NORTON, DIRECTOR

Date: By: /S/ ROBERT S. PRATHER, JR.

ROBERT S. PRATHER, JR., DIRECTOR

Date: March 28, 1997

REPORT OF INDEPENDENT AUDITORS

We have audited the consolidated financial statements of Gray Communications Systems, Inc. as of December 31, 1996 and 1995, and for each of the three years in the period ended December 31, 1996, and have issued our report thereon dated January 27, 1997 (except for Pending Acquisitions of Note C, as to which the date is February 13, 1997). 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 and 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 27, 1997

GRAY COMMUNICATIONS SYSTEMS, INC.

SCHEDULE II--VALUATION AND QUALIFYING ACCOUNTS

COL. A	COL. B	COL. C		COL. D	COL. E
		ADDITIONS			
DESCRIPTION	BALANCE AT BEGINNING OF PERIOD	CHARGED TO COSTS AND EXPENSES	CHARGED TO OTHER ACCOUNTS	DEDUCTIONS(1)	BALANCE AT END OF PERIOD
YEAR ENDED DECEMBER 31, 1996					
Allowance for doubtful accounts.......	$ 450,000	$ 894,000	$ 583,000(2)	$ 477,000	$ 1,450,000
YEAR ENDED DECEMBER 31, 1995					
Allowance for doubtful accounts.......	$ 694,000	$ 384,000	$ 33,000(2)	$ 661,000	$ 450,000
YEAR ENDED DECEMBER 31, 1994					
Allowance for doubtful accounts.......	$ 352,000	$ 211,000	$ 360,000(2)	$ 229,000	$ 694,000

- ------------------------

(1) Deductions are write-offs of amounts not considered collectible.

(2) Represents amounts recorded in certain allocations of purchase prices for the Company's acquisitions.

REPORT OF INDEPENDENT AUDITORS

We have audited the consolidated financial statements of the Broadcasting and Paging Operations of John H. Phipps, Inc. for the nine month period ended September 30, 1996, and the years ended December 31, 1995 and 1994, and have issued our report thereon dated February 12, 1997. 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 and 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
February 12, 1997

BROADCASTING AND PAGING OPERATIONS OF JOHN H. PHIPPS, INC.

SCHEDULE II--VALUATION AND QUALIFYING ACCOUNTS

COL. A	COL. B	COL. C		COL. D	COL. E
		ADDITIONS			
DESCRIPTION	BALANCE AT BEGINNING OF PERIOD	CHARGED TO COSTS AND EXPENSES	CHARGED TO OTHER ACCOUNTS	DEDUCTIONS(1)	BALANCE AT END OF PERIOD
NINE MONTH PERIOD ENDED SEPTEMBER 30, 1996					
Allowance for doubtful accounts........	$ 49,000	$ 2,500	-0-	$ 2,500	$ 49,000
YEAR ENDED DECEMBER 31, 1995					
Allowance for doubtful accounts........	$ 49,000	$ 38,000	-0-	$ 38,000	$ 49,000
YEAR ENDED DECEMBER 31, 1994					
Allowance for doubtful accounts........	$ 49,000	$ 53,000	-0-	$ 53,000	$ 49,000

- ------------------------

(1) Deductions are write-offs of amounts not considered collectible.

SECRETARY OF STATE
BUSINESS INFORMATION AND SERVICES
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ATLANTA, GEORGIA 30334-1530

DOCKET NUMBER : 970210232
CONTROL NUMBER: 0702307
EFFECTIVE DATE: 01/08/1997
REFERENCE : 0086
PRINT DATE : 01/21/1997
FORM NUMBER : 115

HEYMAN & SIZEMORE
NEAL H. RAY
229 PEACHTREE ST/2300 INTERNATIONAL TWR
ATLANTA GA 30303-1608

CERTIFICATE OF RESTATED ARTICLES OF INCORPORATION

I, the Secretary of the State and the Corporation Commissioner of the State of Georgia, do hereby certify under the seal of my office that the articles of incorporation of

GRAY COMMUNICATIONS SYSTEMS, INC.
A DOMESTIC PROFIT CORPORATION

have been duly restated and amended by the filing of articles of restatement in the office of the Secretary of State and by the paying of fees as provided by Title 14 of the Official Code of Georgia Annotated. Attached hereto is a true and correct copy of said articles of restatement.

WITNESS my hand and official seal in the City of Atlanta and the State of Georgia on the date set forth above.

/s/ Lewis A. Massey

LEWIS A. MASSEY
SECRETARY OF STATE

[SEAL]

ARTICLES OF RESTATEMENT
OF
GRAY COMMUNICATIONS SYSTEMS, INC.

The provisions hereof constitute the Articles of Restatement of Gray Communications Systems, Inc. (the "Corporation"). The Corporation was incorporated on January 25, 1897 and its charter number is 0702307. The Restated Articles of Incorporation of the Corporation shall be as follows:

1.

The name of the Corporation is Gray Communications Systems, Inc.

2.

The object of said Corporation shall be pecuniary gain and profit.

3.

(a) The general nature of the business to be engaged in by the Corporation shall be to publish a daily and weekly newspaper, to do a general publishing and printing business, to buy and sell paper and all types of stationery, and to acquire, own, lease, rent and operate television and radio broadcasting stations and community antenna cable television systems and other forms of communication services, utilizing any and all types of transmission facilities. The Corporation shall further have the right to apply for, receive and hold all licenses that may be necessary or required from any licensing agency, federal, state, local or foreign; to do any and all things incident to the operation of such facilities, including, but not limited to, contracting for transmission of programs and entering into such other contracts as the Board of Directors of the Corporation may from time to time deem proper and expedient. Further, the Corporation shall have the right of buying, taking, exchanging, leasing and otherwise acquiring real and personal

property, and any interest or right therein, including the right to hold, own, operate, control, maintain, manage, develop, construct, alter and promote both real property, personal property, securities and evidences of indebtedness, including the right to sell, exchange, or hypothecate all forms of real and personal property, chattels, rights, choses in action, mortgages, bonds, and securities of all kinds and wherever located.

(b) Without in any way limiting the foregoing, petitioner desires that said Corporation be vested with all the rights, powers, and privileges now or hereafter given to do any and all things which may be needful or proper in the operation of the above described business, and that said Corporation have all the powers enumerated in Sections 9 and 10 of the Act of the General Assembly of Georgia approved January 28, 1938 (Georgia Laws 1937-38, Ex. Sess., page 214), and codified as Sections 22-1827 and 22-1828 of the Code of Georgia Annotated, and such powers as are now, or may be hereafter, given by law.

(c) Without in any way limiting the above enumerating powers, the Corporation shall have the power to guarantee, become surety upon, or endorse the contracts or obligations of other corporations, firms, or individuals; including the right to become a purely accommodation guaranty, endorser or surety upon the contracts or obligations of any other corporation, firm or individual, and the further power to buy, sell, trade or purchase the contracts, negotiable instruments or obligations of any other corporation, firm or individual, or any part thereof; all of the foregoing powers to be granted this Corporation regardless of the fact that this Corporation may or may not have the direct interest in the subject matter of such contracts, negotiable instruments or obligations.

4.

The total number of shares of all classes which the Corporation shall have authority to issue is 50,000,000 shares of Class A Common Stock, no par value ("Class A Common Stock"); 15,000,000 shares of Class B Common Stock, no par value ("Class B Common Stock"); and 20,000,000 shares of Preferred Stock ("Preferred Stock").

The designations and the preferences, conversion and other rights, voting powers, restrictions, limitations as to dividends, qualification, and terms and conditions of redemptions of the shares of each class of stock are as follows:

PREFERRED STOCK

The Preferred Stock may be issued from time to time by the Board of Directors as shares of one or more series. The description of shares of each series of Preferred Stock, including any preferences, conversion and other rights, voting powers, restrictions, limitations as to dividends, qualifications, and terms and conditions of redemption shall be as set forth in resolutions adopted by the Board of Directors, and articles of amendment shall be filed with the Georgia Secretary of State as required by law to be filed with respect to issuance of such Preferred Stock, prior to the issuance of any shares of such series.

The Board of Directors is expressly authorized, at any time, by adopting resolutions providing for the issuance of, or providing for a change in the number of shares of any particular series of Preferred Stock and, if and to the extent from time to time as required by law, by filing articles of amendment which are effective without Shareholder action to increase or decrease the number of shares included in each series of Preferred Stock, but not below the number of shares then issued, and to set or change in any one or more respects the designations, preferences,

conversion or other rights, voting powers, restrictions, limitations as to dividends, qualifications, or terms and conditions of redemption relating to the shares of each such series. Notwithstanding the foregoing, the Board of Directors shall not be authorized to change the right of holders of the Class A Common Stock of the Corporation to vote one vote per share on all matters submitted for shareholder action. The authority of the Board of Directors with respect to each series of Preferred Stock shall include, but not be limited to, setting or changing the following:

(a) the annual dividend rate, if any, on shares of such series, the times of payment and the date from which dividends shall be accumulated, if dividends are to be cumulative;

(b) whether the shares of such series shall be redeemable and, if so, the redemption price and the terms and conditions of such redemption;

(c) the obligation, if any, of the Corporation to redeem shares of such series pursuant to a sinking fund;

(d) whether the shares of such series shall be convertible into, or exchangeable for, shares of stock of any other class or classes and, if so, the terms and conditions of such conversion or exchange, including the price or prices of the rate or rates of conversion or exchange and the terms of adjustment, if any;

(e) whether the shares of such series shall have voting rights, in addition to the voting rights provided by law, and, if so, the extent of such voting rights;

(f) the rights of the shares of such series in the event of voluntary or involuntary liquidation, dissolution or winding-up of the Corporation; and

(g) any other relative rights, powers, preferences, qualifications, limitations or restrictions thereof relating to such series.

The shares of Preferred Stock of any one series shall be identical with each other in all respects except as to the dates from and after which dividends thereon shall cumulate, if cumulative.

SERIES A PREFERRED STOCK

Section 1. DESIGNATION AND AMOUNT. The shares of such series shall be designated as "Series A Preferred Stock" (the "Series A Preferred Stock"), and the number of shares constituting the Series A Preferred stock shall be 1,000.

Section 2. RANK. All Series A Preferred Stock shall rank, as to payment of dividends and as to distribution of assets upon liquidation, dissolution, or winding up of the Corporation, whether voluntary or involuntary, (i) on a parity with the Series B Preferred Stock, no par value, of the Corporation, now or hereafter issued and (ii) senior to the Class A Common Stock, no par value (the "Class A Common Stock"), of the Corporation and the Class B Common Stock, no par value (the "Class B Common Stock" and, together with the Class A Common Stock, the "Common Stock"), of the corporation now or hereafter issued.

Section 3. DIVIDENDS AND DISTRIBUTIONS. The holders of shares of Series A Preferred Stock shall be entitled to receive, when, as, and if declared by the Board of Directors of the Corporation (the "Board of Directors" or the "Board") out of funds legally available for such purpose, dividends at the rate of $800.00 per annum per share, and no more, which shall be fully cumulative, shall accrue without interest form the date of original issuance and shall be payable in cash quarterly on March 31, June 30, September 30 and December 31 of each year commencing December 31, 1996 (except that if any such date is a Saturday, Sunday, or legal holiday, then such dividend shall be payable on the next day that is not a Saturday, Sunday, or legal holiday) to holders of record as they appear on the stock books of the Corporation on such record dates, not

more than 50 nor less than 10 days preceding the payment dates for such dividends, as shall be fixed by the Board. The amount of dividends payable per share of Series A Preferred Stock for each quarterly dividend period shall be computed by dividing the annual dividend amount by four. The amount of dividends payable for the initial dividend period and any period shorter than a full quarterly dividend period shall be computed on the basis of a 360-day year of twelve 30-day months. No dividends or other distributions, other than dividends payable solely in shares of Common Stock or capital stock of the Corporation ranking junior as to dividends to the Series A Preferred Stock (collectively, the "Junior Dividend Stock"), shall be paid or set apart for payment on, and except for the use of Common Stock to pay for the exercise of stock options pursuant to the stock option plans of the Corporation and its subsidiaries, no purchase, redemption, or other acquisition shall be made by the Corporation of, any shares of Junior Dividend Stock unless and until all accrued and unpaid dividends on the Series A Preferred Stock shall have been paid or declared and set apart for payment.

If at any time any dividend on any capital stock of the Corporation ranking senior as to dividends to the Series A Preferred Stock (the "Senior Dividend Stock") shall be in default, in whole or in part, no dividend shall be paid or declared and set apart for payment on the Series A Preferred Stock unless and until all accrued and unpaid dividends with respect to the Senior Dividend Stock, including the full dividends for the then current dividend period, shall have been paid or declared and set apart for payment, without interest. No full dividends shall be paid or declared and set apart for payment on any class or series of the Corporation's capital stock ranking, as to dividends, on a parity with the Series A Preferred Stock (the "Parity Dividend Stock") for any period unless all accrued but unpaid dividends have been, or contemporaneously are, paid or declared and set apart for such payment on the Series A Preferred Stock. No full

dividends shall be paid or declared and set apart for payment on the Series A Preferred Stock for any period unless all accrued but unpaid dividends have been, or contemporaneously are, paid or declared and set apart for payment on the Parity Dividend Stock for all dividend periods terminating on or prior to the date of payment of such full dividends. When dividends are not paid in full upon the Series A Preferred Stock and the Parity Dividend Stock, all dividends paid or declared and set apart for payment upon shares of Series A Preferred Stock and the Parity Dividend Stock shall be paid or declared and set apart for payment pro rata, so that the amount of dividends paid or declared and set apart for payment per share on the Series A Preferred Stock and the Parity Dividend Stock shall in all cases bear to each other the same ratio that accrued and unpaid dividends per share on the shares of Series A Preferred Stock and the Parity Dividend Stock bear to each other.

Any reference to "distribution" contained in this Section 3 shall not be deemed to include any stock dividend or distributions made in connection with any liquidation, dissolution, or winding up of the Corporation, whether voluntary or involuntary.

Section 4. LIQUIDATION PREFERENCE. In the event of a liquidation, dissolution, or winding up of the Corporation, whether voluntary or involuntary, the holders of Series A Preferred Stock shall be entitled to receive out of the assets of the Corporation, whether such assets constitute stated capital or surplus of any nature, an amount equal to the dividends accrued and unpaid thereon to the date of final distribution to such holders, without interest, and a sum equal to $10,000.00 per share (the "Liquidation Preference"), and no more, before any payment shall be made or any assets distributed to the holders of Common Stock or any other class or series of the Corporation's capital stock ranking junior as to liquidation rights to the Series A Preferred Stock (collectively, the "Junior Liquidation Stock"); provided, however, that the

holders of Series A Preferred Stock shall be entitled to such payment only in the event that the Corporation's payments with respect to the liquidation preference of the holders of capital stock of the Corporation ranking senior as to liquidation rights to the Series A Preferred Stock (the "Senior Liquidation Stock") are fully met. After the liquidation preferences of the Senior Liquidation Stock are fully met, the entire assets of the Corporation available for distribution shall be distributed ratably among the holders of the Series A Preferred Stock and any other class or series of the Corporation's capital stock having parity as to liquidation rights with the Series A Preferred Stock in proportion to the respective preferential amounts to which each is entitled (but only to the extent of such preferential amounts). After payment in full of the Liquidation Preference of the shares of the Series A Preferred Stock, the holders of such shares shall not be entitled to any further participation in any distribution of assets by the Corporation. Neither a consolidation or merger of the Corporation with another corporation nor a sale or transfer of all or part of the Corporation's assets for cash, securities, or other property will be considered a liquidation, dissolution, or winding up of the Corporation.

Section 5. REDEMPTION AT OPTION OF THE CORPORATION. The Corporation at its option, may redeem at any time all, or from time to time a portion, of the Series A Preferred Stock on any date set by the Board of Directors, at the redemption price of $10,000.00 per share, plus an amount per share equal to all dividends on the Series A Preferred Stock accrued and unpaid on such share, pro rata to the date fixed for redemption (the "Redemption Price"). The Redemption Price shall be payable in cash or, at the option of the Corporation as long as the Class A Common Stock is registered pursuant to the Securities Exchange Act of 1934, in the number of shares (rounded up to the nearest whole share) of Class A Common Stock equal to the amount determined by dividing the Redemption Price by the Average Market Price. The "Average

Market Price" shall mean the average of the last reported sales prices regular way of the Class A Common Stock on each day of the 10-day period preceding the date fixed for redemption or, in case no sale takes place on any such day, the average of the closing bid and asked prices regular way on such day, in either case as reported on the New York Stock Exchange Composite Tape, or, if the Class A Common Stock is not listed or admitted to trading on such Exchange, on the principal national securities exchange on which the Class A Common Stock is listed or admitted to trading, or, if not listed or admitted to trading on any national securities exchange, on the National Association of Securities Dealers Automated Quotation System ("NASDAQ") National Market System, or, if not admitted for quotation on the NASDAQ National Market System, the average of the high bid and low asked prices on such day as recorded by the National Association of Securities Dealers, Inc. through NASDAQ or, if the National Association of Securities Dealers, Inc. through NASDAQ shall not have reported any bid and asked prices for the Class A Common Stock on such day, the average of the bid and asked prices for such day as furnished by any New York Stock Exchange member firm selected from time to time by the Corporation for such purpose, or, if no such bid and asked prices can be obtained from any such firm, the fair market value of one share of Class A Common Stock on such day as determined in good faith by the Board of Directors. Such determination by the Board of Directors shall be conclusive.

In case of the redemption of less than all of the then outstanding Series A Preferred Stock, the Corporation shall designate by lot, or in such other manner as the Board of Directors may determine, the shares to be redeemed, or shall effect such redemption pro rata. Notwithstanding the foregoing, the Corporation shall not redeem less than all of the Series A Preferred Stock at any time outstanding until all accrued but unpaid dividends upon all Series A Preferred Stock then outstanding shall have been paid.

Not more than 60 nor less than 30 days prior to the redemption date, notice by first class mail, postage prepaid, shall be given to the holders of record of the Series A Preferred Stock to be redeemed, addressed to such shareholders at their last addresses as shown on the books of the Corporation. Each such notice of redemption shall specify the date fixed for redemption, the Redemption Price and the form of payment, the place or places of payment, that payment will be made upon presentation and surrender of the shares of Series A Preferred Stock, that accrued but unpaid dividends to the date fixed for redemption will be paid on the date fixed for redemption, and that on and after the redemption date, dividends will cease to accrue on such shares.

Any notice which is mailed as herein provided shall be conclusively presumed to have been duly given, whether or not the holder of the Series A Preferred Stock receives such notice; and failure to give such notice by mail, or any defect in such notice, to the holders of any shares designated for redemption shall not affect the validity of the proceedings for the redemption of any other shares of Series A Preferred Stock. On or after the date fixed for redemption as stated in such notice, each holder of the shares called for redemption shall surrender the certificate (or certificates) evidencing such shares to the Corporation at the place designated in such notice and shall thereupon be entitled to receive payment of the Redemption Price. If fewer than all the shares represented by any such surrendered certificate (or certificates) are redeemed, a new certificate shall be issued representing the unredeemed shares. If, on the date fixed for redemption, funds or shares of Class A Common Stock necessary for the redemption shall be available therefor and shall have been irrevocably deposited or set aside, then, notwithstanding that the certificates evidencing any shares so called for redemption shall not have been surrendered, the dividends with respect to the shares so called shall cease to accrue after the date fixed for redemption, the shares shall no longer be deemed outstanding, the holders thereof shall

cease to be shareholders, and all rights whatsoever with respect to the shares so called for redemption (except the right of the holders to receive the Redemption Price without interest upon surrender of their certificates therefor) shall terminate. Any monies or shares of Class A Common Stock deposited by the Corporation pursuant to the foregoing provision and unclaimed at the end of one year from the date fixed for redemption shall, to the extent permitted by law, be returned to the Corporation, after which the holders of shares of Series A Preferred Stock so called for redemption shall look only to the Corporation for the payment thereof. Shares of Series A Preferred Stock redeemed by the Corporation shall be restored to the status of authorized but unissued shares of Preferred Stock of the Corporation, without designation as to series, and may thereafter be reissued, but not as shares of Series A Preferred Stock.

Section 6. NO SINKING FUND. The shares of Series A Preferred Stock shall not be subject to the operation of a purchase, retirement, or sinking fund.

Section 7. VOTING RIGHTS. The holders of Series A Preferred Stock will not have any voting rights except as set forth below or as otherwise from time to time required by law. Whenever dividends on the Series A Preferred Stock or any other class or series of Parity Dividend Stock shall be in arrears in an amount equal to at least six quarterly dividends, (whether or not consecutive), the holders of the Series A Preferred Stock (voting separately as a class with all other affected classes or series of the Parity Dividend Stock upon which like voting rights have been conferred and are exercisable) will be entitled to vote for and elect two additional directors. Such right of the holders of Series A Preferred Stock to vote for the election of such two directors may be exercised at an annual meeting or at any special meeting called for such purposes as hereinafter provided or at any adjournment thereof, until dividends in default on such outstanding shares of Series A Preferred Stock shall have been paid in full (or such dividends shall

have been declared and funds sufficient therefor set apart for payment), at which time the term of office of the two directors so elected shall terminate automatically (subject to revesting in the event of each and every subsequent default of the character specified in the preceding sentence). So long as such right to vote continues, the Secretary of the Corporation may call, and upon the written request of the holders of record of 10% of the outstanding shares of Series A Preferred Stock addressed to him at the principal office of the Corporation shall call, a special meeting of the holders of such shares for the election of such two directors, as provided herein. Such meeting shall be held not less than 45 nor more than 90 days after the accrual of such right, at the place and upon the notice provided by law and in the By-laws of the Corporation for the holding of meetings of shareholders. No such special meeting or adjournment thereof shall be held on a date less than 30 days before an annual meeting of shareholders or any special meeting in lieu thereof, provided that at such annual meeting appropriate provisions are made to allow the holders of the Series A Preferred Stock to exercise such right at such meeting. If at any such annual or special meeting or any adjournment thereof the holders of a majority of the then outstanding shares of Series A Preferred Stock entitled to vote in such election shall be present or represented by proxy, then the authorized number of directors of the Corporation shall be increased by two, and the holders of Series A Preferred Stock shall be entitled to elect such two additional directors. Directors so elected shall serve until the next annual meeting or until their successors shall be elected and shall qualify, unless the term of office of the persons so elected as directors shall have terminated by virtue of the payment in full of all dividends in arrears (or such dividends shall have been declared and funds sufficient therefor set apart for payment.) In case of any vacancy occurring among the directors so elected by the holders of Series A Preferred Stock, the remaining director who shall have been so elected may appoint a successor to hold office for

the unexpired term of the director whose place shall be vacant, and such successor shall be deemed to have been elected by the holders of Series A Preferred Stock. If both directors so elected by the holders of Series A Preferred Stock shall cease to serve as directors before their terms shall expire, the holders of Series A Preferred Stock then outstanding and entitled to vote for such directors may, at a special meeting of such holders called as provided above, elect successors to hold office for the unexpired terms of the directors whose places shall be vacant.

Without the consent or affirmative vote of the holders of at least a majority of the outstanding shares of Series A Preferred Stock, voting separately as a class, the Corporation shall not authorize, create, or issue any shares of any other class or series of capital stock ranking senior to or on a parity with the Series A Preferred Stock as to dividends or upon liquidation.

The affirmative vote or consent of the holders of at least a majority of the outstanding shares of the Series A Preferred Stock, voting separately as a class, will be required for any amendment, alteration, or repeal, whether by merger or consolidation or otherwise, of the Corporation's Articles of Incorporation if the amendment, alteration, or repeal materially and adversely affects the powers, preferences, or special rights of the Series A Preferred Stock; provided, however, that any increase in the authorized Preferred Stock of the Corporation or the creation and issuance of any other capital Stock of the Corporation ranking senior to, on a parity with, or junior to the Series A Preferred Stock shall not be deemed to affect materially and adversely such powers, preferences, or special rights.

Section 8. OUTSTANDING SHARES. For purposes hereof all shares of Series A Preferred Stock shall be deemed outstanding except that, from the date fixed for redemption pursuant to Section 5 hereof, all shares of Series A Preferred Stock which have been so called for redemption under Section 5, if funds or shares necessary for the redemption of such shares are available, shall

not be deemed to be outstanding.

SERIES B PREFERRED STOCK

Section 1. DESIGNATION AND AMOUNT. The shares of such series shall be designated as "Series B Preferred Stock" (the "Series B Preferred Stock"), and the number of shares constituting the Series B Preferred Stock shall be 2,500 and if and to the extent further shares are needed in order to pay dividends in shares of Series B Preferred Stock as provided for in Section 3 hereof, the Board of Directors of the Corporation will authorize additional shares of Series B Preferred Stock so that at all times, so long as Series B Preferred Stock is outstanding, there will be a sufficient number of Series B Preferred Stock authorized and reserved to pay dividends as provided for in Section 3 hereof in shares of Series B Preferred Stock for the next succeeding four quarters.

Section 2. RANK. All Series B Preferred Stock shall rank, as to payment of dividends and as to distribution of assets upon liquidation, dissolution, or winding up of the Corporation, whether voluntary or involuntary, (i) on a parity with the Series A Preferred Stock, no par value, of the Corporation, now or hereafter issued and (ii) senior to the Class A Common Stock, no par value (the "Class A Common Stock"), of the Corporation and the Class B Common Stock, no par value (the "Class B Common Stock" and, together with the Class A Common Stock, the "Common Stock"), of the Corporation now or hereafter issued.

Section 3. DIVIDENDS AND DISTRIBUTIONS. The holders of shares of Series B Preferred Stock shall be entitled to receive, when, as, and if declared by the Board of Directors of the Corporation (the "Board of Directors" or the "Board") out of funds legally available for such purpose, dividends at the rate of $600.00 per annum per share, which shall be fully cumulative, shall accrue without interest from the date of original issuance and shall be payable at the

Corporation's option in cash, or in additional shares (whether whole or fractional) 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 the value of $10,000 per whole share, quarterly on March 31, June 30, September 30 and December 31 of each year commencing December 31, 1996 (except that if any such date is a Saturday, Sunday, or legal holiday, then such dividend shall be payable on the next day that is not a Saturday, Sunday or legal holiday) to holders of record as they appear on the stock books of the Corporation on such record dates, not more than 50 nor less than 10 days preceding the payment dates for such dividends, as shall be fixed by the Board. The amount of dividends payable per share of Series B Preferred Stock for each quarterly dividend period shall be computed by dividing the annual dividend amount by four. The amount of dividends payable for the initial dividend period and any period shorter than a full quarterly dividend period shall be computed on the basis of a 360-day year of twelve 30-day months. No dividends or other distributions, other than dividends payable solely in shares of Common Stock or capital stock of the Corporation ranking junior as to dividends to the Series B Preferred Stock (collectively, the "Junior Dividend Stock"), shall be paid or set apart for payment on, and except for the use of Common Stock to pay for the exercise of stock options pursuant to the stock option plans of the Corporation and its subsidiaries, no purchase, redemption, or other acquisition shall be made by the Corporation of, any shares of Junior Dividend Stock unless and until all accrued and unpaid dividends on the Series B Preferred Stock shall have been paid or declared and set apart for payment.

If at any time any dividend on any capital stock of the Corporation ranking senior as to dividends to the Series B Preferred Stock (the "Senior Dividend Stock") shall be in default, in whole or in part, no dividend shall be paid or declared and set apart for payment on the Series B

Preferred Stock unless and until all accrued and unpaid dividends with respect to the Senior Dividend Stock, including the full dividends for the then current dividend period, shall have been paid or declared and set apart for payment, without interest. No full dividends shall be paid or declared and set apart for payment on any class or series of the Corporation's capital stock ranking, as to dividends, on a parity with the Series B Preferred Stock (the "Parity Dividend Stock") for any period unless all accrued but unpaid dividends have been, or contemporaneously are, paid or declared and set apart for such payment on the Series B Preferred Stock. No full dividends shall be paid or declared and set apart for payment on the Series B Preferred Stock for any period unless all accrued but unpaid dividends have been, or contemporaneously are, paid or declared and set apart for payment on the Parity Dividend Stock for all dividend periods terminating on or prior to the date of payment of such full dividends. When dividends are not paid in full upon the Series B Preferred Stock and the Parity Dividend Stock, all dividends paid or declared and set apart for payment upon shares of Series B Preferred Stock and the Parity Dividend Stock shall be paid or declared and set apart for payment pro rata, so that the amount of dividends paid or declared and set apart for payment per share on the Series B Preferred Stock and the Parity Dividend Stock shall in all cases bear to each other the same ratio that accrued and unpaid dividends per share on the shares of Series B Preferred Stock and the Parity Dividend Stock bear to each other.

Any reference to "distribution" contained in this Section 3 shall not be deemed to include any stock dividend or distributions made in connection with any liquidation, dissolution, or winding up of the Corporation, whether voluntary or involuntary.

Section 4. LIQUIDATION PREFERENCE. In the event of a liquidation, dissolution, or winding up of the Corporation, whether voluntary or involuntary, the holders of Series B

Preferred Stock shall be entitled to receive out of the assets of the Corporation, whether such assets constitute stated capital or surplus of any nature, an amount equal to the dividends accrued and unpaid thereon to the date of final distribution to such holders, without interest, and a sum equal to $10,000.00 per share (the "Liquidation Preference") and no more, before any payment shall be made or any assets distributed to the holders of Common Stock or any other class or series of the Corporation's capital stock ranking junior as to liquidation rights to the Series B Preferred Stock (collectively, the "Junior Liquidation Stock"); provided, however, that the holders of Series B Preferred Stock shall be entitled to such payment only in the event that the Corporation's payments with respect to the liquidation preference of the holders of capital stock of the Corporation ranking senior as to liquidation rights to the Series B Preferred Stock (the "Senior Liquidation Stock") are fully met. After the liquidation preferences of the Senior Liquidation Stock are fully met, the entire assets of the Corporation available for distribution shall be distributed ratably among the holders of the Series B Preferred Stock and any other class or series of the Corporation's capital stock having parity as to liquidation rights with the Series B Preferred Stock in proportion to the respective preferential amounts to which each is entitled (but only to the extent of such preferential amounts). After payment in full of the Liquidation Preference of the shares of the Series B Preferred Stock, the holders of such shares shall not be entitled to any further participation in any distribution of assets by the Corporation. Neither a consolidation or merger of the Corporation with another corporation nor a sale or transfer of all or part of the Corporation's assets for cash, securities, or other property will be considered a liquidation, dissolution, or winding up of the Corporation.

Section 5. REDEMPTION AT OPTION OF THE CORPORATION. The Corporation at its option, may redeem at any time all, or from time to time a portion, of the Series B Preferred Stock on any

date set by the Board of Directors, at a redemption price of $10,000 per share plus an amount per share equal to all dividends on the Series B Preferred Stock accrued and unpaid on such share, pro rata to the date fixed for redemption (the "Redemption Price"). The Redemption Price shall be payable in cash or, at the option of the Corporation as long as the Class A Common Stock is registered pursuant to the Securities Exchange Act of 1934, in the number of shares (rounded up to the nearest whole share) of Class A Common Stock equal to the amount determined by dividing the Redemption Price by the Average Market Price. The "Average Market Price" shall mean the average of the last reported sales prices regular way of the Class A Common Stock on each day of the 10-day period preceding the date fixed for redemption or, in case no sale takes place on any such day, the average of the closing bid and asked prices regular way on such day, in either case as reported on the New York Stock Exchange Composite Tape, or, if the Class A Common Stock is not listed or admitted to trading on such Exchange, on the principal national securities exchange on which the Class A Common Stock is listed or admitted to trading, or, if not listed or admitted to trading on any national securities exchange, on the National Association of Securities Dealers Automated Quotation System ("NASDAQ") National Market System, or, if not admitted for quotation on the NASDAQ National Market System, the average of the high bid and low asked prices on such day as recorded by the National Association of Securities Dealers, Inc. through NASDAQ or, if the National Association of Securities Dealers, Inc. through NASDAQ shall not have reported any bid and asked prices for the Class A Common Stock on such day, the average of the bid and asked prices for such day as furnished by any New York Stock Exchange member firm selected from time to time by the Corporation for such purpose, or, if no such bid and asked prices can be obtained from any such firm, the fair market value of one share of Class A Common Stock on such day as determined in good faith by the Board of

Directors. Such determination by the Board of Directors shall be conclusive.

In case of the redemption of less than all of the then outstanding Series B Preferred Stock, the Corporation shall designate by lot, or in such other manner as the Board of Directors may determine, the shares to be redeemed, or shall effect such redemption pro rata. Notwithstanding the foregoing, the Corporation shall not redeem less than all of the Series B Preferred Stock at any time outstanding until all accrued but unpaid dividends upon all Series B Preferred Stock then outstanding shall have been paid.

Not more than 60 nor less than 30 days prior to the redemption date, notice by first class mail, postage prepaid, shall be given to the holders of record of the Series B Preferred Stock to be redeemed, addressed to such shareholders at their last addresses as shown on the books of the Corporation. Each such notice of redemption shall specify the date fixed for redemption, the Redemption Price and the form of payment, the place or places of payment, that payment will be made upon presentation and surrender of the shares of Series B Preferred Stock, that accrued but unpaid dividends to the date fixed for redemption will be paid on the date fixed for redemption, and that on or after the redemption date, dividends will cease to accrue on such shares.

Any notice which is mailed as herein provided shall be conclusively presumed to have been duly given, whether or not the holder of the Series B Preferred Stock receives such notice; and failure to give such notice by mail, or any defect in such notice, to the holders of any shares designated for redemption shall not affect the validity of the proceedings for the redemption of any other shares of Series B Preferred Stock. On or after the date fixed for redemption as stated in such notice, each holder of the shares called for redemption shall surrender the certificate (or certificates) evidencing such shares to the Corporation at the place designated in such notice and shall thereupon be entitled to receive payment of the Redemption Price. If fewer than all the

shares represented by any such surrendered certificate (or certificates) are redeemed, a new certificate shall be issued representing the unredeemed shares. If, on the date fixed for redemption, funds or shares of Class A Common Stock necessary for the redemption shall be available therefor and shall have been irrevocably deposited or set aside, then, notwithstanding that the certificates evidencing any shares so called for redemption shall not have been surrendered, the dividends with respect to the shares so called shall cease to accrue after the date fixed for redemption, the shares shall no longer be deemed outstanding, the holders thereof shall cease to be shareholders, and all rights whatsoever with respect to the shares so called for redemption (except the right of the holders to receive the Redemption Price without interest upon surrender of their certificates therefor) shall terminate. Any monies or shares of Class A Common Stock deposited by the Corporation pursuant to the foregoing provision and unclaimed at the end of one year from the date fixed for redemption shall, to the extent permitted by law, be returned to the Corporation, after which the holders of shares of Series B Preferred Stock so called for redemption shall look only to the Corporation for the payment thereof. Shares of Series B Preferred Stock redeemed by the Corporation shall be restored to the status of authorized but unissued shares of Preferred Stock of the Corporation, without designation as to series, and may thereafter be reissued, but not as shares of Series B Preferred Stock.

Section 6. NO SINKING FUND. The shares of Series B Preferred Stock shall not be subject to the operation of a purchase, retirement, or sinking fund.

Section 7. VOTING RIGHTS. The holders of Series B Preferred Stock will not have any voting rights except as set forth below or as otherwise from time to time required by law. Whenever dividends on the Series B Preferred Stock or any other class or series of Parity Dividend Stock shall be in arrears in an amount equal to at least six quarterly dividends, (whether

or not consecutive), the holders of the Series B Preferred Stock (voting separately as a class with all other affected classes or series of the Parity Dividend Stock upon which like voting rights have been conferred and are exercisable) will be entitled to vote for and elect two additional directors. Such right of the holders of Series B Preferred Stock to vote for the election of such two directors may be exercised at an annual meeting or at any special meeting called for such purpose as hereinafter provided or at any adjournment thereof, until dividends in default on such outstanding shares of Series B Preferred Stock shall have been paid in full (or such dividends shall have been declared and funds sufficient therefor set apart for payment), at which time the term of office of the two directors so elected shall terminate automatically (subject to revesting in the event of each and every subsequent default of the character specified in the preceding sentence). So long as such right to vote continues, the Secretary of the Corporation may call, and upon the written request of the holders of record of 10% of the outstanding shares of Series B Preferred Stock addressed to him at the principal office of the Corporation shall call, a special meeting of the holders of such shares for the election of such two directors, as provided herein. Such meeting shall be held not less than 45 nor more than 90 days after the accrual of such right, at the place and upon the notice provided by law and in the By-laws of the Corporation for the holding of meetings of shareholders. No such special meeting or adjournment thereof shall be held on a date less than 30 days before an annual meeting of shareholders or any special meeting in lieu thereof, provided that at such annual meeting appropriate provisions are made to allow the holders of the Series B Preferred Stock to exercise such right at such meeting. If at any such annual or special meeting or any adjournment thereof the holders of a majority of the then outstanding shares of Series B Preferred Stock entitled to vote in such election shall be present or represented by proxy, then the authorized number of directors of the Corporation shall be

increased by two, and the holders of Series B Preferred Stock shall be entitled to elect such two additional directors. Directors so elected shall serve until the next annual meeting or until their successors shall be elected and shall qualify, unless the term of office of the persons so elected as directors shall have terminated by virtue of the payment in full of all dividends in arrears (or such dividends shall have been declared and funds sufficient therefor set apart for payment.) In case of any vacancy occurring among the directors so elected by the holders of Series B Preferred Stock, the remaining director who shall have been so elected may appoint a successor to hold office for the unexpired term of the director whose place shall be vacant, and such successor shall be deemed to have been elected by the holders of Series B Preferred Stock. If both directors so elected by the holders of Series B Preferred Stock shall cease to serve as directors before their terms shall expire, the holders of Series B Preferred Stock then outstanding and entitled to vote for such directors may, at a special meeting of such holders called as provided above, elect successors to hold office for the unexpired terms of the directors whose places shall be vacant.

Without the consent or affirmative vote of the holders of at least a majority of the outstanding shares of Series B Preferred Stock, voting separately as a class, the Corporation shall not authorize, create, or issue any shares of any other class or series of capital stock ranking senior to or on a parity with the Series B Preferred Stock as to dividends or upon liquidation.

The affirmative vote or consent of the holders of at least a majority of the outstanding shares of the Series B Preferred Stock, voting separately as a class, will be required for any amendment, alteration, or repeal, whether by merger or consolidation or otherwise, of the Corporation's Articles of Incorporation if the amendment, alteration, or repeal materially and adversely affects the powers, preferences, or special rights of the Series B Preferred Stock; provided, however, that any increase in the authorized Preferred Stock of the Corporation or the

creation and issuance of any other capital stock of the Corporation ranking senior to, on a parity with, or junior to the Series B Preferred Stock shall not be deemed to affect materially and adversely such powers, preferences, or special rights.

Section 8. OUTSTANDING SHARES. For purposes hereof all shares of Series B Preferred Stock shall be deemed outstanding except that, from the date fixed for redemption pursuant to Section 5 hereof, all shares of Series B Preferred Stock which have been so called for redemption under Section 5, if funds or shares necessary for the redemption of such shares are available, shall not be deemed to be outstanding.

COMMON STOCK

The powers, preferences and rights of the Class A Common Stock and the Class B Common Stock, and the qualifications, limitations or restrictions thereof, shall be as follows:

(a) VOTING. Holders of Class A Common Stock are entitled to ten (10) votes per share. Holders of Class B Common Stock are entitled to one (1) vote per share. All actions submitted to a vote of shareholders are voted on by holders of Class A and Class B Common Stock voting together as a single class, except as otherwise provided herein or by law.

(b) DIVIDENDS AND OTHER DISTRIBUTIONS. Holders of Class A Common Stock and holders of Class B Common Stock are entitled to receive dividends and other distributions in cash, stock or property of the Corporation as may be declared thereon by the Board of Directors out of funds legally available therefor. Each share of Class A Common Stock and each share of Class B Common Stock shall have identical rights with respect to dividends and distributions (including distributions in connection with any recapitalization, and upon liquidation, dissolution or winding up, either partial or complete, of the Corporation).

(c) CLASS B RIGHTS.

(1) If, after the date the Articles of Amendment adding this provision to the Articles are filed with the Secretary of State of Georgia (the "Effective Date"), any person or group acquires beneficial ownership of 100% of the then issued and outstanding shares of Class A Common Stock (such acquisition making such person or group a "Significant Shareholder"), and such person or group does not immediately after such acquisition beneficially own an equal percentage of the then issued and outstanding Class B Common Stock, such Significant Shareholder must, within a 90-day period beginning the day after becoming a Significant Shareholder, commence a public tender offer in compliance with all applicable laws and regulations to acquire additional shares of Class B Common Stock (a "Class B Protection Transaction") as provided in this subsection (c) of the section entitled "Common Stock" of this Article 4.

(2) In a Class B Protection Transaction, the Significant Shareholder must offer to acquire from all the other holders of the Class B Common Stock all of the issued and outstanding shares of Class B Common Stock beneficially owned by them. The Significant Shareholder must acquire all shares validly tendered.

(3) The offer price for any shares of Class B Common Stock required to be purchased by a Significant Shareholder pursuant to a Class B Protection Transaction shall be the greater of (i) the highest price per share paid by the Significant Shareholder for any share of Class A Common Stock or Class B Common Stock (whichever is higher) in the six-month period ending on the date such person or group became a Significant Shareholder and (ii) the highest closing price of a share of Class A Common Stock or Class B Common Stock (whichever is higher) on The New York Stock Exchange (or such

other quotation system or securities exchange constituting the principal trading market for either class of Common Stock) during the 30 calendar days preceding the date such person or group became a Significant Shareholder. If the Significant Shareholder has acquired Class A Common Stock or Class B Common Stock in the six-month period ending on the date such person or group becomes a Significant Shareholder for consideration other than cash, the value of such consideration per share of Class A Common Stock or Class B Common Stock shall be as determined in good faith by the Board of Directors.

(4) The requirement to engage in a Class B Protection Transaction is satisfied by making the requisite offer and purchasing validly tendered shares, even if the number of shares tendered is less than the number of shares for which tender was sought in the required offer.

(5) If a Significant Shareholder fails to make an offer required by this such section (c) of the section entitled "Common Stock" of this Article 4, or to purchase shares validly tendered and not withdrawn, such Significant Shareholder shall not be entitled to vote any shares of Class A Common Stock beneficially owned by such Significant Shareholder and acquired by such Significant Shareholder after the Effective Date that exceeded such Significant Shareholder's comparable percentage of Class B Common Stock unless and until such requirements are complied with or unless and until all shares of Class A Common Stock which would require an offer to be made are no longer owned by such Significant Shareholder. To the extent that the voting power of any shares of Class A Common Stock is so suspended, such shares will not be included in the determination of

aggregate voting shares for any purpose under these Articles of Incorporation or the Georgia Business Corporation Code.

(6) All calculations with respect to percentage ownership of issued and outstanding shares of either class of Common Stock will be based upon the numbers of issued and outstanding shares reported by the Corporation on the last filed of (i) the Corporation's most recent Annual Report on Form 10-K, (ii) its most recent definitive proxy statement, (iii) its most recent Quarterly Report on Form 10-Q , or (iv) if any, its most recent Current Report on Form 8-K.

(7) For purposes of this subsection (c) of the section entitled "Common Stock" of this Article 4, the term "person" means a natural person, company, government, or political subdivision, agency or instrumentality of a government, or other entity. The terms "beneficial ownership" and "group" have the same meanings as used in Regulation 13D promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), subject to the following qualifications: (i) relationships by blood or marriage between or among any persons will not constitute any of such persons a member of a group with any other such persons, absent affirmative attributes of concerted action; (ii) any person acting in his official capacity as a director or officer of the Corporation shall not be deemed to beneficially own shares of Common Stock where such beneficial ownership exists solely by virtue of such person's status as a trustee (or similar position) with respect to shares of Common Stock held by plans or trusts for the general benefit of employees or retirees of the Corporation, and actions taken or agreed to be taken by him in such official capacity or in any other official capacity will not be deemed to constitute such a person a member of a group with any other person; and (iii) formation of a group

will not be deemed to be an acquisition by the group (or any member thereof) of beneficial ownership of any shares of Class A Common Stock then owned by a group member and acquired by such member from the Corporation, by operation of law, by will or the laws of descent or distribution, by charitable contribution or gift, or by foreclosure of a bona fide loan. Furthermore, for the purposes of calculating the number of shares of Class B Common Stock beneficially owned by such shareholder or group: (a) shares of Class B Common Stock acquired by gift shall be deemed to be beneficially owned by such shareholder or member of such group only if such gift is made in good faith and not for the purposes of circumventing the Class B Rights; (b) only shares of Class B Common Stock owned of record by such shareholder or member of such group, or held by others as nominees of such shareholder or member and identified as such to the Corporation, shall be deemed to be beneficially owned by such shareholder or group (provided that shares with respect to which such shareholder or member has sole investment and voting power shall be deemed to be beneficially owned thereby); and (c) only shares of Class B Common Stock acquired by such shareholder or member of such group for an "equitable price" shall be treated as being beneficially owned by such shareholder or group. An "equitable price" will be deemed to have been paid only when shares of Class B Common Stock have been acquired at a price at least equal to the greater of (i) the highest price per share paid by the Significant Shareholder in cash or in non-cash consideration for any shares of Class A Common Stock or Class B Common Stock (whichever is higher) in the six-month period ending on the date such person or group became a Significant Shareholder and (ii) the highest closing price of a share of Class A Common Stock or Class B Common Stock (whichever is higher) on The New York Stock Exchange (or such other quotation system

or securities exchange constituting the principal trading market for either class of Common Stock) during the 30 calendar days preceding the date such person or group became a Significant Shareholder with the value of any non-cash consideration in either case being determined by the Board of Directors acting in good faith.

(d) PREEMPTIVE RIGHTS. The holders of the Class A Common Stock and Class B Common Stock do not have preemptive rights enabling them to subscribe for or receive shares of any class of stock of the Corporation or any other securities convertible into shares of any class of stock of the Corporation.

(e) MERGER AND CONSOLIDATION. In the event of a merger or consolidation of the Corporation with or into another entity (whether or not the Corporation is the surviving entity), or a statutory share exchange involving the Common Stock, the holders of Class B Common Stock shall be entitled to receive the same amount and form of consideration per share as the per share consideration, if any, received by any holder of the Class A Common Stock in such merger or consolidation.

(f) SUBDIVISION OF SHARES. If the Corporation shall in any manner split, subdivide or combine the outstanding shares of Class A Common Stock or Class B Common Stock, the outstanding shares of the other such class of Common Stock shall be proportionally split, subdivided or combined in the same manner and on the same basis as the outstanding shares of the other class of Common Stock have been split, subdivided, or combined.

(g) POWER TO SELL AND PURCHASE SHARES. The Board of Directors shall have the power to cause the Corporation to issue and sell all of any part of any class of stock herein or hereafter authorized to such persons, firms, associations, or corporations, and for such consideration, as the Board of Directors shall from time to time, in its discretion,

determine, whether or not greater consideration could be received upon the issue or sale of the same number of shares of another class, and as otherwise permitted by law. The Board of Directors shall have the power to cause the Corporation to purchase any class of stock herein or hereafter authorized from such persons, firms, associations, or corporations, and for such consideration, as the Board of Directors shall from time to time, in its discretion, determine, whether or not less consideration could be paid upon the purchase of the same number of shares of another class, and as otherwise permitted by law.

(h) AMENDMENTS. In addition to any other vote provided for by law, by these Articles or the By-Laws of the Corporation or by the Board of Directors, the affirmative vote of at least a majority of the vote cast by the holder of shares of Class B Common Stock, voting as a separate group, at any meeting of shareholders shall be required to amend, alter, or repeal any provision of Article 4(c).

5.

The location of the principal office of the Corporation shall be in Dougherty County, Georgia, but the Corporation shall have the privilege of establishing branch offices and places of business both within and without the State of Georgia.

6.

The bylaws of the Corporation shall be adopted by the stockholders and such bylaws shall provide for the officers of the Corporation, the manner of their selection and such other rules appropriate to bylaws which have as their purpose the control and management of the Corporation, including provisions whereby the bylaws may be amended.

7.

No director of the Corporation shall be personally liable to the Corporation or its shareholders for monetary damages for breach of duty of care or other duty as a director; provided, however, that to the extent required by applicable law, this Paragraph 7 shall not eliminate or limit the liability of a director (i) for any appropriation, in violation of his duties, of any business opportunity of the Corporation; (ii) for acts or omissions which involve intentional misconduct or a knowing violation of law; (iii) for the types of liability set forth in Section 14-2-832 of the Georgia Business Corporation Code; or (iv) for any transaction from which the director derived an improper personal benefit. If applicable law is amended to authorize corporate action further eliminating or limiting the liability of directors, then the liability of each director of the Corporation shall be eliminated or limited to the fullest extent permitted by applicable law, as amended. Neither the amendment nor repeal of this Paragraph 7 nor the adoption of any provision of these Articles of Incorporation inconsistent with the Paragraph 7 shall eliminate or reduce the effect of this Paragraph 9 in respect of any acts or omissions occurring prior to such amendment, repeal or adoption of an inconsistent provision.

8.

The Corporation may acquire its own shares and any such shares that are reacquired shall become treasury shares.

IN WITNESS WHEREOF, Gray Communications Systems, Inc. has caused these Articles of Restatement to be executed by its duly authorized officer this 2nd day of January, 1997.

GRAY COMMUNICATIONS SYSTEMS, INC.

By: /s/ J. Mack Robinson

J. Mack Robinson, President

ATTEST:

By: /s/ Robert A. Beizer

Robert A. Beizer, Secretary

GRAY COMMUNICATIONS SYSTEMS, INC.

BYLAWS

ARTICLE I
OFFICES

The principal office of the corporation in the State of Georgia shall be located in the City of Albany, County of Dougherty. The corporation may have such other offices, either within or without the State of Georgia, as the Board of Directors may designate or as the business of the corporation may require from time to time.

ARTICLE II
STOCKHOLDERS

Section 1. ANNUAL MEETING. Commencing in 1973, the annual meeting of stockholders shall be held on the third Tuesday in November of each year at such hour as the Board of Directors may determine, for the purpose of electing directors and for the transaction of such other business as may come before the meeting, provided that the Board of Directors may designate some other date in any particular year for the annual meeting. If the day fixed for the annual meeting shall be a legal holiday in the State of Georgia, such meeting shall be held on the next succeeding business day. If the election of directors shall not be held on the day designated for any annual meeting of stockholders, or at any adjournment thereof, the Board of Directors shall cause the election to be held at a special meeting of the stockholders as soon thereafter as conveniently may be.

Section 2. SPECIAL MEETINGS. Special meetings of the stockholders, for any purpose or purposes, unless otherwise prescribed by statute, may be called by the Chairman of the Board, or by the President, or by the Board of Directors, and shall be called by the President at the request of the holders of not less than one-third of all outstanding shares of the corporation entitled to vote at a meeting, such request shall state the purpose of purposes of the proposed meeting.

Section 3. PLACE OF MEETING. The Board of Directors may designate any place within the State of Georgia as the place of meeting for any annual meeting or for any special meeting called by the Board of Directors. If no designation is made, or if a special meeting be otherwise called, the place of meeting shall be the principal office of the corporation in the State of Georgia.

Section 4. NOTICE OF MEETING. Written or printed notice stating the place, day and hour of meeting, and in case of a special meeting, the purpose or purposes for which the meeting is called, shall be delivered not less than ten nor more than sixty days before the

date of the meeting, either personally or by mail, by or at the direction of the President, or the Secretary, or the officer or persons calling the meeting, to each stockholder of record entitled to vote at such meeting. If mailed, the notice shall be deemed to be delivered when deposited in the United States mail, addressed to the stockholder at his address as it appears on the stock transfer books of the corporation, with postage thereon prepaid. Any stockholder may waive notice of any meeting, whether before or after said meeting.

Section 5. CLOSING OF TRANSFER BOOKS OR FIXING OF RECORD DATE. For the purpose of determining stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof, or stockholders entitled to receive payment of any dividend, or in order to make a determination of stockholders for any other proper purpose, the Board of Directors of the corporation may provide that the stock transfer books shall be closed for a stated period not to exceed in any case, fifty days; provided notice of the closing of the stock transfer books is published prior to the commencement of the stated period in the manner, form and within such time limitations as now or hereafter may be required by law. If the stock transfer books shall be closed for the purpose of determining stockholders entitled to notice of or to vote at a meeting of stockholders, such books shall be closed for at least ten days immediately preceding such meeting. In lieu of closing the stock transfer books, the Board of Directors may fix in advance a date as the record date for any such determination of stockholders, such date in any case to be not more than fifty days, and, in case of a meeting of stockholders, not less than ten days prior to the date on which the particular action, requiring such determination of stockholders, is to be taken; provided notice is published prior to such date in the manner, form and within such time limitations as now or hereafter may be required by law. If the stock transfer books are not closed no record date is fixed for the determination of stockholders entitled to notice of or to vote at a meeting of stockholders, or stockholders entitled to receive payment of a dividend, the date on which notice of the meeting is mailed or the date on which the resolution of the Board of Directors declaring such dividend is adopted, as the case may be, shall be the record date for such determination of stockholders. When a determination of stockholders entitled to vote at any meeting of stockholders has been made as provided in this section, such determination shall apply to any adjournment thereof, unless the Board of Directors, as provided in this section, fixes a new stated period for closing of the stock transfer books or fixes a new record date for the adjourned meeting.

Section 6. VOTING LISTS. The officer or agent having charge of the stock transfer books for shares of the corporation shall make, at least ten days before each meeting of stockholders, a complete list of the stockholders entitled to vote at such meeting, or any adjournment thereof, arranged in alphabetical order, with the address of, and the number of shares held by each, which list, for a period of ten days prior to such meeting, shall be kept on file at the principal office of the corporation and shall be subject to inspection of any stockholder at any time during usual business hours. Such list shall also be produced and kept open at the time and place of the meeting and shall be subject to the inspection of any stockholder during the whole time of the meeting. The original stock transfer

books shall be prima facie evidence as to who are stockholders entitled to examine such list or transfer books or to vote at any meeting of stockholders.

Section 7. QUORUM. A majority of the shares outstanding of the corporation entitled to vote, represented in person or by proxy, shall constitute a quorum at a meeting of stockholders. If less than a majority of the outstanding shares are represented at a meeting, a majority of the shares so represented may adjourn the meeting from time to time without further notice. At such adjourned meeting at which a quorum shall be present or represented, any business may be transacted which might have been transacted at the meeting as originally notified. The stockholders present at a duly organized meeting may continue to transact business until adjournment, notwithstanding the withdrawal of enough stockholders to leave less than a quorum.

Section 8. PROXIES. At all meetings of stockholders, a stockholder may vote by proxy executed in writing by the stockholder or by his duly authorized attorney in fact. Such proxy shall be filed with the Secretary of the corporation before or at the time of the meeting. No proxy shall be valid after eleven months from the date of its execution, unless otherwise provided in the proxy.

Section 9. VOTING OF SHARES. All elections by stockholders shall be by ballot unless waived by the unanimous consent of those stockholders present in person or by proxy in the meeting. The vote on any questions, upon demand of a stockholder present in person or by proxy, shall be by a stock vote and by ballot. The stockholders shall have power by a majority vote at any meeting to remove any director or officer from office.

Section 10. VOTING OF SHARES BY CERTAIN HOLDERS. Shares standing in the name of another corporation may be voted by such officer, agent, or proxy as the bylaws of such corporation may prescribe, or, in the absence of such provision, as the Board of Directors of such corporation may determine.

Shares held by an administrator, executor, guardian, or conservator may be voted by him, either in person or by proxy, without a transfer of such shares into his name. Shares standing in the name of a trustee may be voted by him, either in person or by proxy, but no trustee shall be entitled to vote shares held by him without a transfer of such shares into his name.

Shares standing in the name of receiver may be voted by such receiver, and shares held by or under the control of a receiver may be voted by such receiver without the transfer thereof into his name if authority so to do be contained in an appropriate order of the court by which such receiver was appointed.

A stockholder whose shares are pledged shall be entitled to vote such shares until the shares have been transferred into the name of the pledgee, and thereafter the pledgee shall be entitled to vote the shares so transferred.

Shares of its own stock belonging to the corporation or held by it in a fiduciary capacity shall not be voted, directly or indirectly, at any meeting, and shall not be counted in determining the total number of outstanding shares at any given time.

Section 11. INSPECTORS OF ELECTION. At each meeting of the stockholders, the polls shall be opened and closed, the proxies and ballots shall be received and be taken in charge, and all questions touching the qualification of voters and the validity of proxies and the acceptance or rejection of votes, shall be decided by three inspectors. At the first meeting of the Board of Directors held immediately after the annual meeting of stockholders, the Board of Directors shall appoint three persons as Inspectors of Election, to serve until the close of the next annual meeting and until their successors are chosen. In case of a failure to elect inspectors, or in case an inspector shall fail to attend or refuse or be unable to serve, the Board of Directors may choose an inspector or inspectors to act at such meeting.

ARTICLE III
BOARD OF DIRECTORS

Section 1. GENERAL POWERS. The business and affairs of the corporation shall be managed by its Board of Directors.

Section 2. NUMBER, TENURE AND QUALIFICATIONS. The number of directors of the corporation shall be not less than three nor more than fifteen. Each director shall hold office until the next annual meeting of stockholders and until his successor shall have been elected and qualified. A majority of the directors shall be bona fide residents of the State of Georgia.

Section 3. REGULAR MEETINGS. A regular meeting of the Board of Directors shall be held without other notice than this bylaw immediately after, and at the same place as, the annual meeting of stockholders. The Board of Directors may provide, by resolution, the time and place either within or without the State of Georgia, for the holding of additional regular meetings without other notice than such resolution.

Section 4. SPECIAL MEETINGS. Special meetings of the Board of Directors may be called by or at the request of the Chairman of the Board, the President, or any three directors. The person or persons authorized to call special meetings of the Board of Directors may fix any place within the State of Georgia as the place for holding any special meeting of the Board of Directors called by them.

Section 5. NOTICE. Notice of any special meeting shall be given at least five days previously thereto by written notice delivered personally or mailed to each director at his business address, or by telegram. If mailed, such notice shall be deemed to be delivered when deposited in the United States mail so addressed, with postage thereon prepaid. If notice be given by telegram, such notice shall be deemed to be delivered when the telegram is delivered to the telegraph company. Any director may waive notice of any

meeting. The attendance of a director at a meeting shall constitute a waiver of notice of such meeting, except where a director attends a meeting for the express purpose of objecting to the transaction of any business because the meeting is not lawfully called or convened. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the Board need be specified in the notice or waiver of notice of such meeting.

Section 6. QUORUM. A majority of the Board of Directors for the time being in office shall constitute a quorum for the transaction of business at any meeting of the Board of Directors, but if less than such majority is present at a meeting, a majority of the directors present may adjourn the meeting from time to time without further notice.

Section 7. MANNER OF ACTING. The act of the majority of the directors present at a meeting at which a quorum is present shall be the act of the Board of Directors.

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 election at an annual meeting or at a special meeting of the stockholders called for that purpose.

Section 9. COMPENSATION OF DIRECTORS. By resolution of the Board of Directors, the directors may be paid their expenses, if any, of attendance at each meeting of the Board of Directors, and may be paid a fixed sum for attendance at each meeting of the Board of Directors. No such payment shall preclude any director from serving the corporation in any other capacity and receiving compensation therefor.

Section 10. PRESUMPTION OF ASSENT. A director of the corporation who is present at a meeting of the Board of Directors at which action on any corporate matter is taken shall be presumed to have assented to the action taken unless his dissent shall be entered in the minutes of the meeting or unless he shall file his written dissent to such action with the person acting as the secretary of the meeting before the adjournment thereof or shall forward such dissent by registered mail to the secretary of the corporation immediately after the adjournment of the meeting. Such right to dissent shall not apply to a director who voted in favor of such action.

ARTICLE IV
COMMITTEES

Section 1. EXECUTIVE COMMITTEE. At their first meeting after the annual meeting of stockholders, the Board of Directors shall elect an Executive Committee consisting of not less than three nor more than five members of the Board, and shall designate its chairman. The Chairman of the Board of Directors and the President shall be two of the members elected to the committee. During the intervals between the meetings of the

Board of Directors, the executive committee shall possess and may exercise all the powers of the Board of Directors in the management and direction of the affairs of the company in all cases in which specific directions shall not have been given by the Board of Directors. All actions by the executive committee shall be reported to the Board of Directors at its meeting next succeeding such action, and shall be subject to revision and alteration by the Board; provided, that no rights of third parties shall be affected by any such revision or alteration. Regular minutes of the proceedings of the executive committee shall be kept in a book provided for that purpose. Vacancies in the executive committee shall be filled by the Board of Directors. A majority of the committee shall be necessary to constitute a quorum, and in every case the affirmative vote of a majority of the members present shall be necessary for the passage of any resolution. The Executive Committee may act by the written resolution of a quorum thereof although not formally convened; it shall fix its own rules of procedure, and shall meet as provided by such rules or by resolution of the Board, and it shall also meet at the call of the chairman or of any two members of the committee.

Section 2. MANAGEMENT PERSONNEL COMMITTEE. At the first meeting after the annual meeting of the stockholders, the Board of Directors shall elect a management personnel committee consisting of not less than three nor more than five members of the Board and shall designate its chairman. It shall be the duty of the management personnel committee to make recommendations with respect to executive salaries, bonuses, and compensation, and it shall be their further duty to serve as the nominating committee with respect to the principal officers and other committees of the Board of Directors, as well as making nominations respecting membership to the Board of Directors. Regular minutes of the proceedings of the management personnel committee shall be kept in the book provided for that purpose. Vacancies in the management personnel committee shall be filled by the Board of Directors. A majority of the members of the committee shall constitute a quorum, and in every case the affirmative vote of a majority of the members present shall be necessary for the passage of any resolution. The management personnel committee may act by the written resolution of a quorum though they are not formally convened; it shall fix its own rules of procedure and shall meet as provided by such rules, and it shall meet on the call of the Chairman or any two (2) members of the committee.

Section 3. INTERPRETATION. In these bylaws, unless there is something in the context inconsistent therewith, the term "Board of Directors" shall include and embrace the committees herein provided for to the extent of their delegated authority.

ARTICLE V
OFFICERS

Section 1. NUMBER. The officers of the corporation shall be a Chairman of the Board of Directors, a president, one or more vice presidents (the number thereof to be determined by the Board of Directors), a secretary and a treasurer, each of whom shall be elected by the Board of Directors. Such other officers and assistant officers as may be deemed necessary may be elected or appointed by the Board of Directors. Any person

may hold two or more offices, except that the president may not also be the secretary of the corporation.

Section 2. ELECTION AND TERM OF OFFICE. The officers of the corporation to be elected by the Board of Directors shall be elected annually by the Board of Directors at the first meeting of the Board held after each annual meeting of the stockholders. If the election of officers shall not be held at such meeting, such election shall be held as soon thereafter as conveniently may be. Each officer shall hold office until his successor shall have been duly elected and qualified, or until his death or until he shall resign or shall have been removed in the manner hereinafter provided.

Section 3. REMOVAL. Any officer or agent elected or appointed by the Board of Directors may be removed by the Board of Directors whenever in its judgment the best interests of the corporation would be served thereby.

Section 4. VACANCIES. A vacancy in any office because of death, resignation, removal, disqualification or otherwise, may be filled by the Board of Directors for the unexpired portion of the term.

Section 5. SALARIES. The salaries of the officers shall be fixed from time to time by the Board of Directors and no officer shall be prevented from receiving such salary by reason of the fact that he is also a director of the corporation.

Section 6. CHAIRMAN OF BOARD OF DIRECTORS. The Chairman of the Board shall be a director and shall preside, when present, at all meetings of the stockholders and of the Board of Directors, and shall perform such other duties as may be prescribed by the Board of Directors from time to time. The Board of Directors may appoint a Vice Chairman of the Board who shall perform such duties as may be prescribed by the Board of Directors from time to time.

Section 7. PRESIDENT. The president shall be a director. He shall preside, in the absence of the Chairman or Vice Chairman, at all meetings of the stockholders or the Board of Directors. He may sign, with the secretary or any other proper officer of the corporation thereunto authorized by the Board of Directors, certificates for shares of the corporation, any deeds, mortgages, bonds, policies of insurance, contracts investment certificates, or other instruments which the Board of Directors has authorized to be executed, except in cases where the signing and execution thereof shall be expressly delegated by the Board of Directors or by these bylaws to some other officer or agent of the corporation, or shall be required by law to be otherwise signed or executed; and in general shall perform all duties incident to the office of president and such other duties as may be prescribed by the Board of Directors from time to time.

Section 8. VICE PRESIDENTS. In the absence of the President or in the event of his death or inability or refusal to act, the Vice President (or in the event there be more than one vice president, the vice presidents in the order designated at the time of their election)

shall perform the duties of the president, and when so acting, shall have all the powers of and be subject to all the restrictions upon the president. Any vice president may sign, with the Secretary or an assistant secretary certificates for shares of the corporation, and shall perform such other duties as shall from time to time be assigned to him by the President or by the Board of Directors. All vice presidents shall have such other duties as may be prescribed by the Board of Directors from time to time. The Board of Directors may from time to time add to the title of "Vice President" such additional descriptive prefix as may indicate his service, duty or duties.

Section 9. SECRETARY. The secretary shall:

(a) attend and keep the minutes of the stockholders' meetings and of the Board of Directors' meetings in one or more books provided for that purpose;

(b) see that all notices are duly given in accordance with the provisions of these bylaws as required by law;

(c) be custodian of the corporate records and of the seal of the corporation and see that the seal of the corporation is affixed to all documents, the execution of which on behalf of the corporation under its seal is duly authorized;

(d) keep a register of the post office address of each stockholder which shall be furnished to the secretary by such stockholder;

(e) sign with the president, or a vice president, certificates for shares of the corporation, the issuance of which shall have been authorized by resolution of the Board of Directors;

(f) have general charge of the stock transfer books of the corporation;

(g) in general perform all duties incident to the office of secretary and such other duties as from time to time may be assigned to him by the president or by the Board of Directors.

Section 10. TREASURER. The treasurer shall give a bond for the faithful discharge of his duties in such sum and with such surety or sureties as the Board of Directors shall determine. He shall:

(a) have charge and custody of and be responsible for all funds and securities of the corporation; receive and give receipts for monies due and payable to the corporation from any source whatsoever, and deposit all such monies in the name of the corporation in such banks, trust companies, or other depositories as shall be selected in accordance with the provisions of Article VI of these bylaws; and

(b) in general perform all the duties incident to the office of treasurer and such other duties as from time to time may be assigned to him by the president or by the Board of Directors.

Section 11. CONTROLLER. The controller shall be the accounting officer of the corporation. He shall keep adequate and correct accounts of the corporation's business transactions, including the accounts of its assets, liabilities, reserves, gains, losses, capital, surplus, and shares. It shall be his duty, in conjunction with other proper officers, to enforce budget rules and regulations and other measures and procedures whereby the business of the company shall be conducted with the maximum of safety, efficiency, economy, and profit; and he shall see to it that adequate internal audits are currently and accurately made. He shall, in general, perform all duties incident to the office of controller and such other duties as from time to time may be assigned to him by the President or by the Board of Directors.

Section 12. ASSISTANT SECRETARIES AND ASSISTANT TREASURERS. The assistant secretaries and assistant treasurers, in general, shall perform such duties as shall be assigned to them by the secretary or the treasurer, respectively, or by the Board of Directors.

Section 13. CHIEF EXECUTIVE OFFICER. The Chief Executive Officer, subject to the control of the Board of Directors, shall be in general charge of the affairs of the corporation and in general manage, supervise and control all of its business activities and without limitation on the foregoing shall supervise all the public relations of the Company. Any officer or agent of the corporation may be suspended and removed by the Chief Executive Officer, subject to ratification or reinstatement by the Board of Directors, whenever in his judgment the best interest of the corporation; would be served thereby.

The Board of Directors may designate by resolution either the Chairman of the Board, the Vice Chairman of the Board (if one), or the President as the Chief Executive Officer, but in the absence of such a resolution the President shall be the Chief Executive Officer.

ARTICLE VI
CONTRACTS, LOANS, CHECKS AND DEPOSITS

Section 1. CONTRACTS. The Board of Directors may authorize any officer or officers, agent or agents, to enter into any contract or execute and deliver any instrument, including contracts or policies of insurance, in the name of and on behalf of the corporation, and such authority may be general or confined to specific instances.

Section 2. LOANS. No loans shall be contracted on behalf of the corporation and no evidences of indebtedness shall be issued in its name unless authorized by a resolution of the Board of Directors. Such authority may be general or confined to specific instances.

Section 3. CHECKS, DRAFTS, ETC. All checks, drafts, or other orders for the payment of money, notes or other evidences of indebtedness issued in the name of the corporation shall be signed by such officer or officers, agent or agents of the corporation and in such manner as shall from time to time be determined by resolution of the Board of Directors.

Section 4. DEPOSITS. All funds of the corporation not otherwise employed shall be deposited from time to time to the credit of the corporation in such banks, trust companies, or other depositories as the Board of Directors may select.

ARTICLE VII
CERTIFICATES FOR SHARES AND THEIR TRANSFER

Section 1. CERTIFICATES FOR SHARES. Certificates representing shares of the corporation shall be in such form as shall be determined by the Board of Directors. Such certificates shall be signed by the president or vice president and by the secretary or an assistant secretary, but when such certificate is signed by a transfer agent and a registrar the signatures of such president, vice president, secretary or assistant secretary may be facsimiles. All certificates for shares shall be consecutively numbered or otherwise identified. The name and address of the person to whom the shares represented thereby are issued, with the number of shares and date of issue, shall be entered on the transfer books of the corporation. All certificates surrendered to the corporation for transfer shall be cancelled and no new certificates shall be issued until the former certificate for a like number of shares shall have been surrendered and cancelled, except that in case of a lost, destroyed or mutilated certificate a new one may be issued therefor upon such terms and indemnity to the corporation as the Board of Directors may prescribe.

Section 2. TRANSFER OF SHARES. Transfer of shares of the corporation shall be made only on the stock transfer books of the corporation by the holder of record thereof or by his legal representative, who shall furnish proper evidence of authority to transfer, or by his attorney thereto authorized by power of attorney duly executed and filed with the secretary of the corporation, and on surrender for cancellation of the certificate for such shares. The person in whose name shares stand on the books of the corporation shall be deemed by the corporation to be the owner thereof for all purposes.

Section 3. REGULATIONS. The Board of Directors shall have power and authority to make all such rules and regulations as respectively they may deem expedient, concerning the issue, transfer and registration of certificates for shares of the capital stock of the company.

The Board of Directors may appoint one or more transfer agents or assistant transfer agents and one or more registrars of transfer, and may require all stock certificates to bear the signature of a transfer agent or assistant transfer agent and a registrar of transfer. The Board of Directors may at any time terminate the appointment of any transfer agent or any assistant transfer agent or any registrar of transfers.

ARTICLE VIII
FISCAL YEAR

The fiscal year of the corporation shall begin on the first day of January of each year, and end on the 31st day of December of the same year.

ARTICLE IX
DIVIDENDS

The Board of Directors may from time to time declare, and the corporation may pay, dividends on its outstanding shares in the manner and upon the terms and conditions provided by law, its charter, and these bylaws.

ARTICLE X
ANNUAL STATEMENT

The Board of Directors shall publish and submit to the stockholders, at or in advance of the annual meeting of stockholders, a statement of the financial condition of the corporation, such statement to show the income of the corporation during the previous fiscal year and such statement to include a balance sheet showing the assets and liabilities of the corporation at the end of the preceding fiscal year.

ARTICLE XI
SEAL

The Board of Directors shall provide a corporate seal which shall be circular in form and shall have inscribed thereon the name of the corporation and the state of incorporation and the words "Corporate Seal".

ARTICLE XII
WAIVER OF NOTICE

Whenever any notice is required to be given to any stockholder or director of the corporation under the provisions of these bylaws or under the provisions of the articles of incorporation, a waiver thereof in writing, signed by the person or persons entitled to such notice, whether before or after the time stated therein, shall be deemed equivalent to the giving of such notice.

ARTICLE XIII
AMENDMENTS

These bylaws may be altered, amended, or repealed and new bylaws may be adopted by a majority vote of the stockholders at any regular or special meeting of the stockholders.

ARTICLE XIV
INDEMNIFICATION

Section 1. AUTHORITY TO INDEMNIFY. The corporation shall indemnify or obligate itself to indemnify an individual made a party to a proceeding because he or she is or was a director, officer, employee or agent of the Corporation (or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise) for reasonable expenses, judgments, fines, penalties and amounts paid in settlement (including attorneys' fees), incurred in connection with the proceeding of the individual acted in the manner he or she believed in good faith to be in or not opposed to the best interests of the Corporation and, in the case of any criminal proceeding, he or she had no reasonable cause to believe his or her conduct was unlawful. The termination of a proceeding by a judgment, order, settlement or conviction, or upon a plea of nolo contendere or its equivalent is not, of itself, determinative that the director, officer, employee or agent did not meet the standard of conduct set forth above. Indemnification permitted under this section in connection with a proceeding by or in the right of the corporation is limited to reasonable expenses incurred in connection with the proceeding.

Section 2. MANDATORY INDEMNIFICATION. To the extent that a director, officer, employee or agent of the Corporation has been successful, on the merits or otherwise, in the defense of any proceeding to which he or she was a party, or in defense of any claim, issue or matter therein, because he or she is or was a director, officer, employee or agent of the Corporation, the Corporation shall indemnify the director, employee or agent against reasonable expenses incurred by him or her in connection therewith.

Section 3. ADVANCE FOR EXPENSES. The Corporation shall pay for or reimburse the reasonable expenses incurred by a director, officer, employee or agent of the Corporation who is a party to a proceeding in advance of final disposition of the proceeding if (a) he or she furnishes the Corporation written affirmation of his or her good faith belief that he or she has met the standard of conduct set forth in Section 1 of this Article, and (b) he or she furnishes the Corporation a written undertaking, executed personally or on his or her behalf, to repay any advances if it is ultimately determined that he or she is not entitled to indemnification. The undertaking required by this section must be an unlimited general obligation, but need not be secured and may be accepted without reference to financial ability to make repayment.

Section 4. COURT-ORDERED INDEMNIFICATION AND ADVANCES FOR EXPENSES. A director, officer, employee or agent of the Corporation who is a party to a proceeding may apply for indemnification or advances for expenses to the court conducting the proceeding or to another court of competent jurisdiction.

Section 5. DETERMINATION OF INDEMNIFICATION. Except as provided in Section 2 and except as may be ordered by the court, the Corporation may not indemnify a director, officer, employee or agent under Section 1 unless authorized thereunder and a

determination has been made in the specific case that indemnification of the director, officer, employee or agent is permissible in the circumstances because he or she has met the standard of conduct set forth in Section 1. The determination shall be made:

(a) by the Board of Directors by majority vote of a quorum consisting of directors not at the time parties to the proceeding;

(b) if a quorum cannot be obtained, by majority vote of a committee duly designated by the Board of Directors (in which designation directors who are parties may participate), consisting solely of two or more directors not at the time parties to the proceeding;

(c) by special legal counsel:

(i) selected by the Board of Directors or its committee in the manner prescribed in paragraph (a) or (b) of this section; or

(ii) if a quorum of the Board of Directors cannot be obtained and committee cannot be designated, selected by majority vote of the full Board of Directors (in which selection directors who are parties may participate); or

(d) by the shareholders, but shares owned by or voted under the control of directors, who are at the time parties to the proceeding, may not be voted on the determination.

Section 6. AUTHORIZATION OF INDEMNIFICATION. Authorization of indemnification or determination of an obligation to indemnify and evaluation as to the reasonableness of expenses shall be made in the same manner as the determination that indemnification is permissible, except that if the determination is made by special legal counsel, authorization of indemnification and evaluation as to reasonableness of expenses shall be made by those entitled under subsection (c) of Section 5 to select counsel.

Section 7. OTHER RIGHTS. The indemnification and advancement of expenses provided by or granted pursuant to this Article XIV shall not be deemed exclusive of any other rights, in respect of indemnification or otherwise, to which those seeking indemnification or advancement of expenses may be entitled under any bylaw, resolution, agreement or contract either specifically or in general terms approved by the affirmative vote of the holders of a majority of the shares entitled to vote thereon taken at a meeting the notice of which specified that such bylaw, resolution or agreement would be placed before the stockholders, both as to action by a director, trustee, officer, employee or agent in his or her official capacity and as to action in another capacity while holding such office or position, except that no such other rights, in respect to indemnification or otherwise, may be provided or granted to a director, trustee, officer, employee or agent pursuant to this Section 7 by the Corporation for liability for (a) any appropriation , in violation of his or her duties, of any business opportunity of the Corporation; (b) acts of

omissions not in good faith or which involve intentional misconduct or a knowing violation of law; (c) the types of liability set forth in Section 14-2-832 of the Georgia Business Corporation Code dealing with illegal or unauthorized distributions of corporate assets, whether as dividends or in liquidation of the Corporation or otherwise; or (d) any transaction from which the director derived an improper material tangible personal benefit.

Section 8. INSURANCE. The Corporation may purchase and maintain insurance on behalf of an individual who is or was a director, officer, employee or agent of the Corporation or who, while a director, officer, employee or agent of the Corporation, is or was serving at the request of the Corporation as a director, officer, partner, trustee, employee or agent of another foreign or domestic corporation, partnership, joint venture, trust, employee benefit plan or other enterprise against liability asserted against or incurred by him or her in that capacity or arising from his or her status as a director, officer, employee or agent whether or not the Corporation would have power to indemnify him or her against the same liability under this Article XIV.

Section 9. CONTINUATION OF EXPENSES. The indemnification and advancement of expenses provided by or granted pursuant to this Article XIV shall continue as to a person who has ceased to be a director, trustee, officer, employee or agent and shall inure to the benefit of the heirs, executors and administrators of such person.

Section 10. If applicable law is amended to authorize corporate action further eliminating or limiting the liability of directors, then the liability of each director of the Corporation shall be eliminated or limited to the fullest extent permitted by applicable law, as amended. Neither the amendment nor repeal of this Article XIV, nor the adoption of any provision of these Bylaws inconsistent with this Article XIV, shall eliminate or reduce the effect of this Article XIV in respect of any acts of omission occurring prior to such amendment, repeal or adoption of any inconsistent provision.

Amendment of Employment Agreement
of Robert A. Beizer

This Agreement made as of the 12th day of December, 1996, between Gray Communications Systems, Inc., a Georgia business corporation (the "Corporation"), and Robert A. Beizer (the "Employee"):

RECITALS

WHEREAS, the Corporation and Employee desire to modify certain terms of that Employment Agreement entered into between the Corporation and Employee dated as of the 12th day of February, 1996 (the "Agreement"); and

WHEREAS, the terms, conditions and undertakings of this amendment to the Agreement were submitted to and duly approved and duly authorized by the Management Personnel Committee of the Corporations's Board of Directors at a meeting held on December 12, 1996; and

WHEREAS, the stockholders of the Corporation approved an amendment to the Corporations's Articles of Incorporation to provide for a Class B Common Stock of no par value (the "Shares").

NOW, THEREFORE, in consideration of the mutual covenants herein set forth and other good and valuable services, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. Paragraph 5 LONG TERM INCENTIVE COMPENSATION of the Agreement is amended by striking it entirely and inserting in its place the following:

LONG TERM INCENTIVE COMPENSATION

The Corporation has adopted a stock option plan known as the 1992 Long Term Incentive Plan (the "Plan"). Employee will be immediately awarded a non-qualified stock option to purchase from the Corporation all or part of up to and including 15,000 Shares. If following the date of this Agreement and prior to the exercise (s) of this option, there shall have occurred a Share dividend, Share split, recapitalization or issuance of additional Shares, then the number of Shares available for exercise shall be adjusted to reflect such occurrence. The term of the option shall commence on December 12, 1996, and shall be exercisable over a three (3) year period beginning on the second anniversary date of the date of grant. The exercise price of each Share so purchased shall be $15.875 per share. On February 12 of each remaining year of the Agreement, the Employee will be awarded a non-qualified stock option for 7,000 Shares at the Fair Market Value of the Shares as determined on the date of the award each year pursuant to the Plan which shall be exercisable

over a three (3) year period beginning on the second anniversary date of the date of each grant.

Other than the above changes, all of the other provisions of the Employment Agreement dated as of February 12, 1996, shall remain in full force and effect.

The non-qualified stock option award agreement pursuant to the 1992 Long Term Incentive Plan, dated February 12, 1996, between the Corporation and the Employee is hereby terminated and a non-qualified stock option award agreement pursuant to the 1992 Long Term Incentive Plan dated as of December 12, 1996, will be executed in compliance with the terms of this Agreement.

IN WITNESS WHEREOF, the parties have hereunto executed this Agreement the date and year first written.

ATTEST: GRAY COMMUNICATIONS SYSTEMS, INC. ("Corporation")

By:

- ------------------------- ----------------------------
Secretary J. Mack Robinson, President

Robert A. Beizer (Employee)

AMENDMENT TO GRAY COMMUNICATIONS SYSTEMS, INC.'S 1992 LONG TERM INCENTIVE PLAN

(As adopted by the Board of Directors on February 22, 1996 and approved by the Stockholders on September 3, 1996.)

RESOLVED, that subject to the approval of the shareholders of the Company, the 1992 Long Term Incentive Plan is hereby amended to delete subsection (u) of Section II in its entirety and substitute in lieu thereof the following:

> "(u) Stock means the authorized and unissued shares of the Company's Class A Common Stock and Class B Common Stock or shares of the Company's Class A Common Stock or Class B Common Stock held in its treasury."

RESOLVED, that subject to the approval of the shareholders of the Company, the 1992 Long Term Incentive plan is hereby amended by adding a new first sentence to Section 4 thereof as follows:

> "There is hereby reserved for issuance under the Plan an aggregate of 600,000 shares of Stock, of which 200,000 shares shall be the Company's Class A Common Stock and 400,000 shares shall be the Company's Class B Common Stock."

RESOLVED, that subject to the approval of the shareholders of the Company, 400,000 shares of Class A Common Stock previously reserved for issuance pursuant to the 1992 Long Term Incentive Plan are hereby no longer reserved for issuance pursuant thereto and 400,000 shares of Class B Common Stock are hereby reserved for issuance pursuant to the 1992 Long Term Incentive Plan.

FIRST AMENDMENT

TO THE

GRAY COMMUNICATIONS SYSTEMS, INC.
CAPITAL ACCUMULATION PLAN

THIS AMENDMENT to the Gray Communications Systems, Inc. Capital Accumulation Plan, made this _______ day of ________, 1997, by Gray Communications Systems, Inc., a corporation organized and existing under the laws of the State of Georgia (hereinafter referred to as the "Employer"), to be effective January 1, 1997, or as otherwise indicated.

W I T N E S S E T H

WHEREAS, the Employer has previously adopted the Gray Communications Systems, Inc. Capital Accumulation Plan (hereinafter referred to as the "Plan"); and

WHEREAS, the Employer wishes to amend the Plan at this time in order to reflect recent changes in Federal law, to provide for investment in Class B common stock of the Employer, and for other purposes;

NOW THEREFORE, the Plan is hereby amended in the following particulars:

1.

The Preamble of the Plan is changed by deleting the references to Sections 41 and 409 of the Code.

2.

Section 1.03 of the Plan is amended to read as follows:

1.03 AFFILIATED COMPANY: Any company or organization directly or indirectly controlled by, controlling, or under common control with the Company, within the meaning of Section 1563(a) of the Internal Revenue Code, determined without regard to Sections 1563(a)(4) and 1563(e)(3)(C) thereof, or Section 414(c) of the Code or is a member of an affiliated service group within the meaning of Section 414(m) of the Code.

3.

Section 1.11 of the Plan is amended to read as follows:

(c) for all purposes under the Plan except Articles 15 and 16, and for purposes of Article 15 beginning with the 1998 Plan Year, Earnings shall include any amount contributed by the Employer on behalf of an Employee pursuant to a salary reduction agreement which is not includable in the gross income of the Employee under Section 125, 402(a)(8), or 402(h) of the Code; and

4.

Section 1.29 of the Plan is amended to read as follows:

1.29 SHARE OF COMPANY STOCK: A share of common stock of the Company. Effective beginning January 1997 for Employer Contributions under Article 4 and beginning April 1997 for Participant Contributions under Article 3, and investment elections and transfers of Accounts under Article 5, Class B Common Stock shall be used.

5.

Section 2.02 of the Plan is amended by replacing the third paragraph with the following:

With respect to a Rollover, Plan to Plan Transfer, or Contribution under Section 4.02(b), an Employee shall automatically become a Participant at the time of rollover, transfer, or Contribution.

6.

The first paragraph of Section 3.09 of the Plan is amended to read as follows:

ROLLOVER CONTRIBUTIONS: Any employee upon commencement of Employment may make a rollover contribution to the Trust Fund of all or any portion of the entire amount which is an eligible rollover distribution, as defined in Section 402(c)(4) of the Code and Treasury Regulation Section 1.402(c)-2, Q&A 3 and 4, provided such rollover contribution is either (i) a direct transfer from another qualified plan or (ii) received on or before the 60th day immediately following the date the Employee received such distribution from a qualified plan or conduit individual retirement account or annuity. Only cash or its equivalent may be contributed to the Plan.

7.

Section 4.02(b) of the Plan is amended to read as follows:

(b) To satisfy either the Actual Deferral Percentage Test of Section 16.02 or the Actual Contribution Percentage Test of Section 16.03, contribute or reclassify amounts which may be designated as "qualified non-elective contributions" within the meaning of Section 401(m)(4)(C) of the Code or as "qualified matching contributions" within the meaning of Treasury Regulations issued pursuant to Sections 401(k) and (m) of the Code, which amounts may be allocated, at the direction of the Employer and in accordance with applicable Treasury Regulations, only among the appropriate Accounts of those who are not Highly Compensated Employees according to Article 16. Qualified nonelective contributions will be allocated to all such eligible Employees. Qualified

matching contributions will be allocated to all such Employees who have made contributions during the Plan Year. Any contributions made under this Section 4.02(b) shall be fully vested and nonforfeitable, shall be identified as allocable or reallocable to the Company Additional Contribution Accounts of the affected Participants, and may be withdrawn pursuant to Section 8.03.

8.

Section 7.04 of the Plan is amended by deleting "in" between "Contribution" and "Account" in item (i) of the second paragraph.

9.

Section 7.06 of the Plan is amended by replacing the first sentence of the first paragraph with the following:

Subject to the following paragraph, benefits shall be paid or made available under the Plan upon the direction of the Committee as soon as practicable after termination of Employment occurs.

10.

Section 7.07(d) is amended to read as follows:

(d) For purposes of this Section, the term "required beginning date" means April 1 of the calendar year following the calendar year in which the Participant attains age 70 1/2, or such other date as may be prescribed by regulations. Provided however, in the case of a Participant who is not a 5% owner included under Section 14.02(b)(3) the term "required beginning date" means April 1 of the calendar year following the later of: (1) the calendar year in which the Participant attains 70 1/2, or (2) the calendar year in which the Participant retires or otherwise terminates Employment.

11.

The last paragraph of Section 7.07 of the Plan is amended to read as follows:

> Distributions will be made in accordance with the regulations under Section 401(a)(9) of the Code, and (to the extent consistent with Section 401(a)(9) of the Code), the minimum distribution requirements in Section 1.401(a)(9)-1 of the Proposed Treasury Regulations, and the minimum distribution incidental death benefit requirements of Section 1.401(a)(9)-2 of the Proposed Treasury Regulations.

12.

Section 8.03 of the Plan is amended by replacing the first paragraph with the following:

> Upon written application by a Participant for a Specified Hardship Withdrawal and approval by the Plan Administrator, the Participant may withdraw from his Accounts as follows, in the order indicated.
>
> (1) Non Tax-Deferred Employee Contribution Account;
> (2) Rollover Account;
> (3) Vested Value of Matching Company Contribution Account under Section 4.01 and Vested Value of Company Additional Contribution Account under Section 4.02(a);
> (4) Company Additional Contribution Account under Section 4.02(b);
> (5) Tax-Deferred Employee Contribution Account, excluding investment return;

13.

Section 8.03(h) of the Plan is amended by adding the following at the end of the first sentence:

> (but not including any health or welfare benefit plan, including one that is part of a cafeteria plan under Section 125 of the Code).

14.

Section 11.05 of the Plan is amended by deleting the reference to Section 409 of the Code.

15.

Section 12.01 of the Plan is amended by replacing "411(d)(b)" with "411(d)(6)."

16.

Section 12.03 of the Plan is amended by replacing "4976(3)" with "4975(e)(7)."

17.

Section 15.02 is amended by inserting the following as the first paragraph:

This Section shall not apply after the 1999 Plan Year.

18.

Article 16 of the Plan is amended to read as follows:

SPECIAL 401(k) AND 401(m) NONDISCRIMINATION RULES

16.01 DEFINITIONS: For purposes of this Article 16, the following words and phrases shall have the following meanings:

(a) ACTUAL DEFERRAL PERCENTAGE: The ratio (to the nearest one-hundredth of one percent (1/100%)), of Elective Deferrals and Qualified Employer Deferral Contributions on behalf of the Eligible Participant for the Plan Year to the Eligible Participant's Earnings for the Plan Year.

Such Elective Deferrals and/or Qualified Employer Deferral Contributions shall be taken into account for a Plan Year only if allocated to the Employee's Accounts as of a date within that Plan Year. For this purpose, an elective contribution is considered allocated as of a date within a Plan Year if the allocation is not contingent on participation or performance of services after such date, and the elective contribution is actually paid to the Trust Fund no later than twelve (12) months after the Plan Year to which the contribution relates.

Such Elective Deferrals and/or Qualified Employer Deferral Contributions shall be taken into account for a Plan Year only if they relate to Earnings that either would have been received by the Employee in the Plan Year (but for the deferral election) or are attributable to services performed by the Employee in the Plan Year and would have been received by the Employee within 2-1/2 months after the close of the Plan Year (but for the deferral election).

For this purpose, the Employer may elect to take into account Qualified Nonelective Contributions and/or qualified matching contributions allocated to the Participant's Accounts for the Plan Year only if the conditions described in Section 401(k)(3) and Section 1.401(k)-1(b)(5) of the regulations are satisfied.

(b) ADJUSTMENT FACTOR: The cost of living adjustment factor prescribed by the Secretary of the Treasury under Section 415(d) of the Code, as applied to such items and in such manner as the Secretary shall provide.

(c) AVERAGE ACTUAL DEFERRAL PERCENTAGE (ADP): The average (to the nearest one-hundredth of one percent (1/100%)) of the Actual Deferral Percentages of the Eligible Participants in a group.

(d) AVERAGE CONTRIBUTION PERCENTAGE (ACP): The average (to the nearest one-hundredth of one percent (1/100%)) of the Contribution Percentages of the Eligible Participants in a group.

(e) CONTRIBUTION PERCENTAGE: The ratio (to the nearest one-hundredth of one percent (1/100%)), of the sum of the Employee Contributions and Matching Contributions under the plan on behalf of the Eligible Participant for the Plan Year to the Eligible Participant's Earnings for the Plan Year. For this purpose, the Employer may elect to take into account Elective Deferrals and/or Qualified Nonelective Contributions allocated to a Participant's Accounts, instead of under sub-section (a), only if the conditions described in Section 401(m)(3) of the Code and Section 1.401(m)-1(b)(5) of the regulations are satisfied. These conditions include:

(1) The nonelective contributions, including Qualified Nonelective Contribution treated as matching contributions under this sub-section (e), satisfy the requirements of Section 401(a)(4) of the Code;

(2) The nonelective contributions, excluding Qualified Nonelective Contributions treated as matching contributions under this subsection (e) and Qualified Nonelective Contributions treated as Qualified Employer Deferral Contributions for purposes of subsection (a), satisfy the requirements of Section 401(a)(4) of the Code;

(3) The elective contributions, including those treated as matching contributions under this subsection (e), satisfy the requirements of Section 401(k)(3) of the Code.

(f) DEFERRAL AMOUNT: The amount of Elective Deferrals for a calendar year that the Participant allocates to this Plan pursuant to the claim procedure set forth in Section 16.02(b).

(g) ELECTIVE DEFERRALS: Contributions made to the Plan during the Plan Year by the Employer, at the election of the Participant, in lieu of cash compensation and including contributions made pursuant to a salary reduction agreement.

(h) ELIGIBLE PARTICIPANT: For purposes of Section 16.02, any Employee of the Employer who is directly or indirectly eligible to have Elective Deferrals, or Qualified Employer Deferral Contributions allocated to his Accounts for the Plan Year, including:

(1) an Employee who would be a Plan Participant but for the failure to make required contributions;

(2) an Employee whose right to make contributions under Article 3 or receive matching contributions under Article 4 has been suspended because of an election (other than certain one-time elections) not to participate; a distribution; or a loan;

(3) an Employee who cannot make an Elective Deferral under Article 3, because Article 16 of this Plan and Section 415 of the Code prevents the Employee from receiving additional "annual additions", as defined in Section 16.01.

In the case of an Eligible Participant who makes no Elective Deferrals under Sections 3.01 or 3.02 or who receives no Employer Contributions under Section 4.02(b), the Actual Deferral Percentage to be included in deferring the ADP is zero.

For purposes of Section 16.03, any Employee of the Employer who is directly or indirectly eligible to have Employee Contributions or Matching Contributions allocated to his Account for the Plan Year, including:

(1) an Employee who would be a Plan Participant but for the failure to make required contributions;

(2) an Employee whose right to make contributions under Article 3 or receive matching contributions under Article 4 has been suspended because of an election (other than certain one-time elections) not to participate;

(3) an Employee who cannot make a contribution under Article 3 or receive matching contributions under Article 4, because Article 16 of this Plan and Section 415(c)(1) or Section 415(e) of the Code prevents the Employee from receiving additional "annual additions", as defined in Section 16.01.

In the case of an Eligible Participant who makes no contributions under Section 3.03 or who receives no Employer Contributions under Section 4.01 or 4.02(a), the Contribution Percentage to be included in determining the ACP is zero.

(i) EMPLOYEE CONTRIBUTIONS: Contributions to the Plan made by a Participant during the Plan Year.

(j) EXCESS AGGREGATE CONTRIBUTIONS: The excess of:

(1) the aggregate amount of the Employee Contributions and Matching Contributions, any recharacterized contributions under Section 16.02(e)(2) and, if taken into account under Section 16.03, the Deferral Amounts actually made on behalf of Highly Compensated Eligible Participants for the Plan Year, over

(2) the maximum amount of the Contributions permitted under the limitations of Section 16.03, determined under the "leveling method".

Under the leveling method, the Excess Aggregate Contributions of the Highly Compensated Employee with the highest Contribution amount shall be reduced to the greater of the next highest such amount or an amount which will produce an Average Contribution Percentage that will satisfy the test under Section 16.03(a). This reduction process will be repeated as necessary to satisfy the test for such Plan Year.

The amount of Excess Aggregate Contributions for a Highly Compensated Employee is equal to the total of contributions under subsection (1), minus the amount of the Contribution determined under the previous paragraphs.

(k) EXCESS CONTRIBUTIONS: The excess of:

(1) the aggregate amount of Deferral Amounts and Qualified Employer Deferral Contributions actually contributed on behalf of Highly Compensated Eligible Participants for the Plan Year, over

(2) the maximum amount of Deferral Amounts permitted under the limitations of Section 16.02, determined under the "leveling method".

Under the leveling method, the Excess Contributions of the Highly Compensated Employee with the highest Deferral Amount shall be reduced to the greater of the next highest such Amount or an Amount which will produce an Average Actual Deferral Percentage that will satisfy the test under Section 16.02(b). This reduction process will be repeated as necessary to satisfy the test for such Plan Year.

(l) HIGHLY COMPENSATED EMPLOYEE: For each Plan Year, a Highly Compensated Active Employee or Highly Compensated Former Employee is determined under the following rules:

(1) A Highly Compensated Active Employee shall include:

(A) any Employee who performs service for the Employer during the determination year and who, during the look-back year: received Earnings from the Employer in excess of $80,000 (as modified by the Adjustment Factor) and is in the top 20% of the Employees when Employees are ranked on the basis of Earnings during the look-back year.

(B) an Employee who is a Five-Percent Owner at any time during the look-back year or determination year. A five--Percent Owner is a person who owns (or is considered as owning within the meaning of Code Section 318) more than five percent (5%) of the outstanding stock of the Employer or Affiliated Company, or stock possessing more than five percent (5%) of the total combined voting power of all stock of the Employer or Affiliated Company.

(2) A Highly Compensated Former Employee shall include an Employee who terminated employment with the Employer (or was deemed to have terminated employment) before the determination year, performs no service for the Employer during the determination year and was a Highly Compensated Active Employee for the separation year or any determination year ending on or after the Employee's 55th birthday.

(3) The determination of who is a Highly Compensated Employee, shall be made in accordance with Code Section 414(g) and the regulations thereunder.

(4) For purposes of this Section the determination year shall be the Plan Year; and the look-back year shall be the twelve-month period immediately preceding the determination year.

(m) NONHIGHLY COMPENSATED EMPLOYEE: An Employee of the Employer who is not a Highly Compensated Employee.

(n) QUALIFIED EMPLOYER DEFERRAL CONTRIBUTIONS: Qualified Non-elective Contributions taken into account under the terms of the Plan in determining the Actual Deferral Percentage.

(o) QUALIFIED NONELECTIVE CONTRIBUTIONS: Contributions (other than Matching Contributions) made by the Employer and allocated to Participants' Accounts that the Participant may not elect to receive in cash until distributed from the Plan; that are 100 percent vested and nonforfeitable when made; and that are not distributable under the terms of the Plan to Participants or their Beneficiaries earlier than the earlier of:

(1) separation from service, death, or disability of the participant;

(2) attainment of the age of 59 1/2 by the Participant;

(3) termination of the Plan without establishment of a successor plan;

(4) qualification for a Specified Hardship under Section 8.03.

16.02 ELECTIVE DEFERRALS:

(a) MAXIMUM DEFERRAL: No Employee shall be permitted to have Elective Deferrals made under this Plan during any calendar year in excess of $9,500, modified by the Adjustment Factor as provided by the Secretary of the Treasury.

(b) DISTRIBUTION OF EXCESS DEFERRALS: Excess Deferrals and income allocable thereto shall be distributed no later than each April 15 to Participants who claim such allocable Excess Deferrals for the preceding calendar year.

The Participant's claim shall be in writing; shall be submitted to the Plan Administrator no later than March 1; shall specify the Participant's Excess Deferral Amount for the preceding calendar year; and shall be accompanied by the Participant's written statement that if such amounts are not distributed, such Excess Deferral Amount, when added to amounts deferred under other plans or arrangements described in Sections 401(k), 408(k) or 403(b) of the Code, exceeds the limit imposed on the Participant by Section 402(g) of the Code for the year in which the deferral occurred.

The Excess Deferral Amount distributed to a Participant with respect to a calendar year shall be adjusted for income and, if there is a loss allocable to the Excess Deferral, shall in no event be less than the lesser of the Participant's Account under the Plan or the Participant's Elective Deferrals for the Plan Year.

(c) MAXIMUM ADP:

(1) The ADP for the determination year for Eligible Participants who are Highly Compensated Employees shall not exceed the ADP for the look back year for Eligible Participants who are Nonhighly Compensated employees, multiplied by 1.25; or

(2) The ADP for the determination year for Eligible Participants who are Highly Compensated Employees shall not exceed the 200% of the ADP for the lookback year for Eligible Participants who are Nonhighly Compensated Employees, and the excess of the ADP for the determination year for Eligible Participants who are Highly Compensated Employees over the ADP for the look back year for Eligible Participants who are Nonhighly Compensated Employees shall not be more than 2%.

(d) SPECIAL RULES:

(1) For purposes of this Section 16.02, the Actual Deferral Percentage for any Eligible Participant who is a Highly Compensated Employee for the Plan Year and who is eligible to have Elective Deferrals or Qualified Employer Deferral Contributions allocated to his account under two or more plans or arrangements described in Section 401(k) of the Code that are maintained by the Employer or an Affiliated Company and that are aggregated for purposes of Section 401(a)(4) or Section 410(b) (other than Section 410(b)(2)(A)(ii)) of the Code shall be determined as if all such Elective Deferrals and Qualified Employer Deferral Contributions were made under a single arrangement. If this Plan and one or more other plans are permissibly aggregated for purposes of the test described in Sections 16.02(c), then the aggregated plans must also satisfy sections 401(a)(4) and 410(b) of the Code as though they constituted a single plan.

(2) Beginning with the 1999 Plan Year, the requirements of Sub-section (c) shall not apply for any Plan Year for which a Qualified Nonelective Contribution of 3% or more is made under the provisions of Section 4.02(b), provided each eligible Employee is provided with a written notice of his rights and obligations under this arrangement within a reasonable period before such year.

(3) For purposes of this Article, for the 1997 Plan Year, "the ADP for Nonhighly Compensated Employees for 1997" shall be substituted for "the ADP for the look-back year for Eligible Participants who are Nonhighly Compensated Employees," in Section 16.02(c).

(e) CORRECTION OF EXCESS CONTRIBUTIONS: If the above limitations of Sections 16.02(c) and 16.02(d) would be exceeded in any Plan Year, the Committee shall take one or more of the following actions (in any order it deems advisable):

(1) Limit Future Tax-Deferred Contributions: The Committee may limit future Basic or Supplemental Tax-Deferred Employee Contributions for some or all Highly Compensated Employees to the extent it deems necessary to pass the ADP test or the Multiple Use Test.

(2) Recharacterize Excess Contributions: The Committee may recharacterize Excess Contributions as after-tax contributions for some or all Highly Compensated Employees to the extent

it deems necessary to pass the ADP test or the Multiple Use Test. Any contributions so recharacterized shall be included in the Participant's taxable income and shall remain subject to the nonforfeitability requirements and distribution limitations that apply to elective contributions.

The amount of Excess Contributions recharacterized as after-tax contributions with respect to a Highly Compensated Employee, when added to the amount of actual Supplemental Non Tax-Deferred Employee Contributions made by the Participant, may not exceed the maximum amount of Supplemental Non Tax-Deferred Contributions that the Participant is permitted to make under the Plan in the absence of recharacterization (which maximum amount shall be determined without reference to the limitations of Section 16.03(a) of this Plan).

(3) Return Excess Contributions: Excess Contributions and income allocable thereto shall be distributed no later than the last day of each Plan Year, to Participants on whose behalf such Excess Contributions were made for the preceding Plan Year.

The Employer will be liable for a 10% excise tax on the amount of Excess Contributions unless they are distributed within 2-1/2 months after the close of the Plan Year for which they are made.

The income allocable to Excess Contributions shall be determined by multiplying income allocable to the Participant's Elective Deferrals and Qualified Employer Deferral Contributions for the Plan Year by a fraction. The numerator of the fraction is the Excess Contribution on behalf of the Participant for the Plan Year. The denominator of the fraction is the sum of the Participant's Account balances attributable to Elective Deferrals and Qualified Employer Deferral Contributions on the last day of the preceding Plan Year plus the Participant's Elective Deferrals and Qualified Employer Deferral Contributions for the Plan Year. No income shall be included for the period between the end of the Plan Year and the date of distribution (the "gap period").

The Excess Contributions to be distributed to the Participant shall be adjusted for income; and shall, if there is a loss allocable to the Excess Contributions, in no event be less

than the lesser of the Participant's Account under the Plan or the Participant's Elective Deferrals and Qualified Employer Deferral Contributions for the Plan Year.

Amounts distributed under this Subsection (e) shall first be treated as distributions from the Participant's Elective Deferral account and shall be treated as distributed from the Participant's Qualified Employer Deferral Contribution account only to the extent such Excess Contributions exceed the balance in the Participant's Elective Deferral account.

If the entire account balance of a Highly Compensated Employee is distributed during the Plan Year in which the Excess Contribution occurred, the distribution is deemed to have been a corrective distribution to the extent that a corrective distribution would have been required.

(4) The amount of Excess Contributions to be recharacterized or distributed under this Section 16.02(e) with respect to a Participant for a Plan Year shall be reduced by any Excess Deferrals previously distributed to the Participant for the same Plan Year. Similarly, the amount of Excess Deferrals that may be distributed with respect to a Participant for a Plan Year under Section 16.02(b) shall be reduced by any Excess Contributions previously distributed or recharacterized with respect to the Participant for the same Plan Year.

(5) Any correction of Excess Contributions in accordance with this Section 16.02(e) shall be accomplished no later than March 15 of the Plan Year following the Plan Year with respect to which the Excess Contributions were originally made to the Plan.

16.03 EMPLOYEE AND MATCHING COMPANY CONTRIBUTIONS:

(a) MAXIMUM ACP:

(1) The ACP for the determination year for Eligible Participants who are Highly Compensated Employees shall not exceed 125% of the ACP for the look back year for Eligible Participants who are Nonhighly Compensated Employees; or

(2) The ACP for the determination year for Eligible Participants who are Highly Compensated Employees shall not exceed 200% of the ACP for the look back year for Eligible Participants who are Nonhighly Compensated Employees and the excess of the ACP for the determination year for Eligible Participants who are Highly Compensated Employees over the ACP for the look back year for Eligible Participants who are Nonhighly Compensated Employees shall not be more than 2%.

(b) SPECIAL RULES:

(1) For purposes of this Section 16.03, the Contribution Percentage for any Eligible Participant who is a Highly Compensated Employee for the Plan Year and who is eligible to make Employee Contributions, or to receive Matching Contributions, Qualified Nonelective Contributions or Elective Deferrals allocated to his account under two or more plans described in Section 401(a) of the Code or arrangements described in Section 401(k) of the Code that are maintained by the Employer or an Affiliated Company shall be determined as if all such contributions and Elective Deferrals were made under a single plan.

(2) In the event that this Plan satisfies the requirements of Section 410(b) of the Code only if aggregated with one or more other plans, or if one or more other plans satisfy the requirements of Section 410(b) of the Code only if aggregated with this Plan, then this Section shall be applied by determining the Contribution Percentages of Eligible Participants as if all such plans were a single plan.

(3) For purposes of determining the Contribution Percentages, the Committee may elect to take into account Elective Deferrals and/or Qualified Employer Deferral Contributions allocated to a Participant's Accounts, subject to the requirements

of Sections 401(a)(4) and 401(m) of the Code and the regulations thereunder.

(4) The determination and treatment of the Contribution Percentage of any Participant shall satisfy such other requirements as may be prescribed by the Secretary of the Treasury.

(5) Beginning with the 1999 Plan Year, the requirements of this subsection and subsection (c) shall not apply for Matching Contributions under Section 4.01, if Section 16.02(d)(2) of this Plan applies, provided each eligible Employee is provided with a written notice of his rights and obligations under this arrangement within a reasonable period before such year.

(6) For purposes of this Article for the 1997 Plan Year, "the ACP for Nonhighly Compensated Employees for 1997" shall be substituted for "the ACP for the look-back year for Eligible Participants who are Nonhighly Compensated Participants" in Section 16.03(a).

(c) MULTIPLE USE TEST: For each Plan Year, Sections 16.02(c)(2) and 16.03(a)(2) shall not be applied to satisfy the ADP test and ACP test for the same Plan Year, unless:

(1) the ADP for all Highly Compensated Employees exceeds the amount described in Section 16.02(c)(1);

(2) the ACP for all Highly Compensated Employees exceeds the amount described in Section 16.03(a)(1);

(3) the sum of the ADP and the ACP for all Highly Compensated Participants does not exceed the greater of the sum of (A) and (B), or the sum of (C) and (D), where

(A) equals 125% of the greater of the ADP and the ACP for all Nonhighly Compensated Participants.

(B) equals either 200% of the lesser of the ADP and the ACP for all Nonhighly Compensated Participants or, if less, the lesser of the ADP or the ACP for all Nonhighly Compensated employees plus 2%.

(C) equals 125% of the lesser of the ADP and the ACP for all Nonhighly Compensated Participants.

(D) equals either 200% of the greater of the ADP and the ACP for all Nonhighly Compensated Participants or, if less, the greater of the ADP or the ACP for all Nonhighly Compensated Employees plus 2%.

In the event of a required reduction for Highly Compensated Employees due to the Multiple Use Test, such reduction will be made first under subsection 16.03(d) and then under subsection 16.02(e).

(d) CORRECTION OF EXCESS AGGREGATE CONTRIBUTIONS: If the Plan fails or is projected to fail the ACP test, the Committee shall take one or more of the following actions (in any order it deems advisable) to pass the test(s):

(1) Limit Future Employee Contributions: The Committee may limit future Supplemental Employee Contributions and/or Company Matching Contributions for some or all Highly Compensated Employees to the extent it deems necessary.

(2) Use Tax-Deferred Contributions: The Committee may consider a portion of Tax-Deferred Contributions for some or all Nonhighly Compensated Employees to be Employee Contributions to the extent such Contributions are not necessary to pass the ADP test or the Multiple Use Test.

(3) Return Excess Aggregate Contributions: Excess Aggregate Contributions and income allocable thereto shall be forfeited, if otherwise forfeitable under the terms of this Plan, or if not forfeitable, distributed after the Plan Year in which the Excess Aggregate Contributions occurred, but no later than the last day of the subsequent Plan Year, for each Plan Year beginning after December 31, 1987.

The income allocable to Excess Aggregate Contributions shall be determined by multiplying the income allocable to the Participant's Employee Contributions and Matching Employer Contributions for the Plan Year by a fraction. The numerator of the fraction is the Excess Aggregate Contributions on behalf of the Participant for the Plan Year. The denominator of the fraction is the sum of the Participant's Account balances attributable to Employee Contributions and Matching Employer Contributions on the last day of the preceding Plan Year, plus the amounts of the Employee Contributions and Matching Employer Contributions for the Plan Year. No income shall be included for the period between the end of the Plan Year and the date of distribution (the "gap period").

The Excess Aggregate Contributions to be distributed to a Participant shall be adjusted for income, and, if there is a loss allocable to the Excess Aggregate Contribution, shall in no event be less than the lesser of the Participant's Account under the Plan or the Participants's Employee Contributions and Matching Contributions for the Plan Year.

Notwithstanding any other provision herein, if any Supplemental Non Tax-Deferred Employee Contributions are treated as Excess Aggregate Contributions, then any Matching Contributions that the Employer has made with respect to such contributions shall be forfeited, and shall be treated in accordance with Section 4.04.

(4) Notwithstanding any other provision herein, the amount of the Excess Aggregate Contributions for a year shall be calculated only after the determination of the amount of the Excess Contributions that are to be recharacterized as after-tax contributions in accordance with Section 16.02(e)(2).

(5) Any correction of Excess Aggregate Contributions in accordance with this Section 16.03(d) shall be accomplished no later than March 15 of the Plan Year following the Plan Year with respect to which the Excess Aggregate Contributions were originally made to the Plan.

Excess Aggregate Contributions shall be distributed from the Participant's Employee Contribution Account, and forfeited if otherwise forfeitable under the terms of the Plan (or, if not forfeitable, distributed) from the Participant's Matching Contribution account in proportion to the Participant's Employee Contributions and Matching Contributions for the Plan Year.

Any distribution or forfeiture of Excess Aggregate Contributions will be made on the basis of the respective portions of such amounts that are attributable to each Highly Compensated Employee.

If the entire Account balance of a Highly Compensated Employee is distributed during the Plan Year in which the Excess Aggregate Contribution occurred, the distribution is deemed to have been a corrective distribution to the extent that a corrective distribution would have been required.

Amounts forfeited by Highly Compensated Employees under this Section 16.03 shall be treated as Annual Additions under Article 15 and applied to reduce employer contributions.

All other provisions of the Plan not inconsistent herewith are hereby confirmed and ratified.

IN WITNESS WHEREOF, the Employer has caused this Amendment to be executed on the day and year first above written.

GRAY COMMUNICATIONS SYSTEMS, INC.

By:

Title:

EXHIBIT 11

STATEMENT RE: COMPUTATION OF EARNINGS PER SHARE

	YEAR ENDED DECEMBER 31,		
	1996	1995	1994
PRIMARY:			
Weighted average shares outstanding	5,398,436	4,354,183	4,689,453
Common stock equivalents - based on the treasury stock method using average market price	227,112	127,134	-0-
Totals	5,625,548	4,481,317	4,689,453
Income before extraordinary charge available to common stockholders	$ 5,301,592	$ 930,969	$ 2,765,701
Extraordinary charge	3,158,960	-0-	-0-
Net income available to common stockholders	$ 2,142,632	$ 930,969	$ 2,765,701
PRIMARY PER SHARE AMOUNTS:			
Income before extraordinary charge available to common stockholders	$ 0.94	$ 0.21	$ 0.59
Extraordinary charge	(0.56)	-0-	-0-
Net income available to common stockholders	$ 0.38	$ 0.21	$ 0.59
FULLY DILUTED:			
Weighted average shares outstanding	5,398,436	4,354,183	4,689,453
Common stock equivalents - based on the treasury stock method using the the higher of quarter-end market price or average market price	245,289	144,682	-0-
Totals	5,643,725	4,498,865	4,689,453
Income before extraordinary charge available to common stockholders	$ 5,301,592	$ 930,969	$ 2,765,701
Extraordinary charge	3,158,960	-0-	-0-
Net income available to common stockholders	$ 2,142,632	$ 930,969	$ 2,765,701
FULLY DILUTED PER SHARE AMOUNTS:			
Income before extraordinary charge available to common stockholders	$ 0.94	$ 0.21	$ 0.59
Extraordinary charge	(0.56)	-0-	-0-
Net income available to common stockholders	$ 0.38	$ 0.21	$ 0.59

EXHIBIT 21

LIST OF SUBSIDIARIES OF
GRAY COMMUNICATIONS SYSTEMS, INC.

NAME	JURISDICTION OF INCORPORATION
The Albany Herald Publishing Company, Inc.	Georgia
The Rockdale Citizen Publishing Company	Georgia
The Southwest Georgia Shopper, Inc.	Georgia
Gray Kentucky Television, Inc.	Georgia
KTVE Inc.	Arkansas
WALB-TV, Inc.	Georgia
WCTV Operating Corp.	Georgia
WJHG-TV, Inc.	Georgia
WRDW-TV, Inc.	Georgia
WVLT-TV, Inc.	Georgia
Gray Real Estate and Development Company	Georgia
Gray Transportation Company, Inc.	Georgia
Porta-Phone Paging, Inc.	Georgia
Gray Television Management, Inc.	Delaware
Porta-Phone Licensee Corp.	Delaware
WALB Licensee Corp.	Delaware
WCTV Licensee Corp.	Delaware
WJHG Licensee Corp.	Delaware
WKYT Licensee Corp.	Delaware
WRDW Licensee Corp.	Delaware
WYMT Licensee Corp.	Delaware
WVLT Licensee Corp.	Delaware

EXHIBIT 23.1

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 and in the Registration Statement (Form S-8 No. 333-15711) pertaining to the Gray Communications Systems, Inc. 1992 Long-Term Incentive Plan of our report dated January 27, 1997, except for Pending Acquisitions of Note C, as to which the date is February 13, 1997, 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, 1996.

Ernst & Young LLP

Atlanta, Georgia
March 28, 1997

EXHIBIT 23.2

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 and in the Registration Statement (Form S-8 No. 333-15711) pertaining to the Gray Communications Systems, Inc. 1992 Long-Term Incentive Plan of our report dated February 12, 1997, with respect to the financial statements and schedule of the Broadcasting and Paging Operations of John H. Phipps, Inc. included in the Annual Report (Form 10-K) of Gray Communications Systems, Inc. for the year ended December 31, 1996.

Ernst & Young LLP

Atlanta, Georgia
March 28, 1997

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE DECEMBER 31, 1996 AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF GRAY COMMUNICATIONS SYSTEMS, INC. AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

YEAR
DEC-31-1996
JAN-01-1996
DEC-31-1996
1,051,044
0
18,823,839
1,450,000
624,118
23,539,223
53,993,742
18,209,891
298,663,842
23,881,335
173,228,049
0
20,000,000
64,681,576
10,543,940
298,663,842
0
79,305,199
0
63,226,287
(5,704,582)
894,000
11,689,053
10,094,441
4,416,000
5,678,441
0
3,158,960
0
2,519,481
0.38
0.38

Includes gain recognized on the sale of KTVE, the Company's NBC-affiliated television station of approximately $5.7 million.
Extraordinary charge net of taxes recorded in connection with the early retirement of the Senior Note and the Old Credit Facility and the write-off of related unamortized loan aquisition costs.