the value of connections

1 9 9 9

HDTV

INTERNET

NEWSPAPER

TELEVISION

Annual Report

GRAY

Communications Systems, Inc.

The story of GRAY is the story of a Company successfully connecting to what matters the most: people, places, opportunity and responsibility.

Gray Communications Systems, Inc. was founded in 1891 to publish The Albany Herald in Albany, Georgia. Following an initial public offering in 1967, a significant equity investment in 1992 brought a new strategic direction to the Company. With the goal of developing a major media presence in mid-size markets, Gray embarked on a determined and selective growth plan. To date, the Company has increased its properties to 13 television stations, four daily newspapers and a communications and paging business in the Southeast.

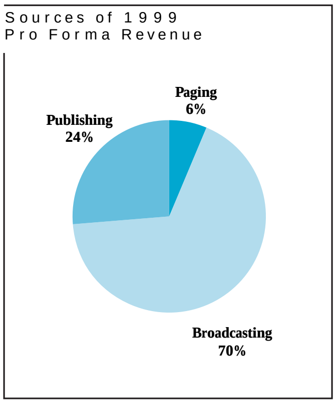
This strategy has resulted in a proven record of operating performance, with net revenues rising from $24.6 million in 1992 to $144.0 million in 1999. This reflects a compound annual growth rate of 28.7 percent. During 1999, Gray continued an uninterrupted record of paying dividends for 32 consecutive years.

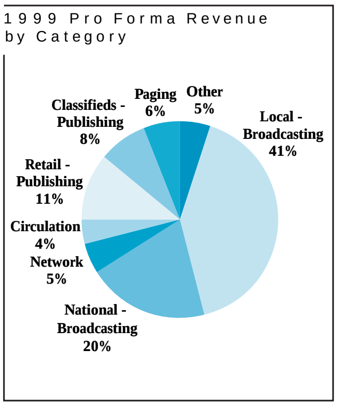
Consistent with its overriding commitment to create value for its stockholders, employees and the communities it serves, Gray focuses on three key areas to provide growth:

- Extending exceptional service to local communities
- Acquiring selective, well-managed properties in fast-growing mid-size markets with excellent growth potential
- Improving existing operations through innovative marketing initiatives and focused cost control.

As the Company enters the new millennium, Gray's market-leading operations are well positioned to capitalize on future opportunities for increasing cash flow and property values.

Financial Highlights





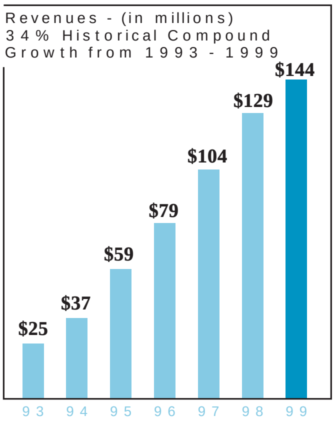
	Year Ended December 31,			
	Historical		Pro Forma (1)	
	1999	1998	1999	1998
	(in thousands, except percentages)			
Financial Highlights				
Revenues	$143,953	$128,890	$162,038	$161,544
Operating income	22,060	24,927(2)	24,437	28,581
Media Cash Flow (3)	$ 50,944	$ 46,624	$ 58,799	$ 60,962
Media Cash Flow margins (3)	35%	36 %	36%	38%
Financial Highlights Excluding Political Revenue (4)				
Revenues – excluding political revenue	$143,331	$121,014	$161,405	$152,632
Operating income – excluding political revenue	21,438	17,051(2)	23,804	19,669
Media Cash Flow, excluding political revenue (3)	$ 50,322	$ 38,748	$ 58,166	$ 52,050
Media Cash Flow margins – excluding political revenue (3)	35%	32 %	36%	34%

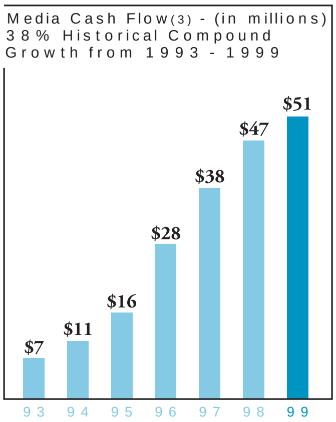
(1) Pro forma results reflect financial results as if the 1998 and 1999 acquisitions and dispositions had occurred on January 1, 1998. See Note B to the Company's Audited Consolidated Financial Statements included elsewhere herein with respect to acquisitions and dispositions.

(2) Operating income excludes the gain on disposition of the exchange of WALB-TV of $72.6 million and the charges relating to valuation adjustments of goodwill and other assets of $2.1 million.

(3) See Note J to the Company's Audited Consolidated Financial Statements included elsewhere herein with respect to the computation of Media Cash Flow.

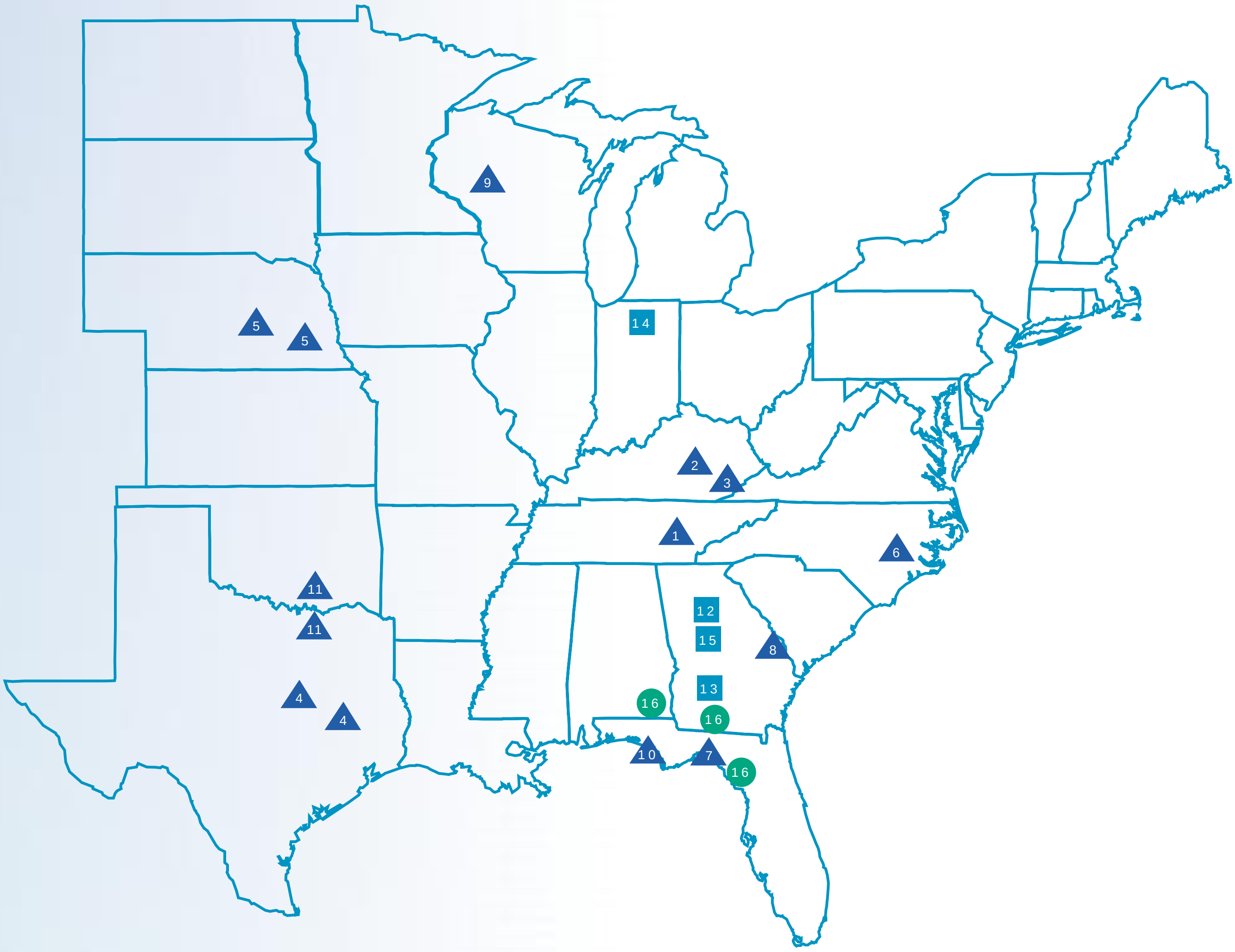
(4) Excludes political revenue from Gray's historical and pro forma financial results. Due to the cyclical nature of political revenue, excluding the impact of political revenue provides a better comparative basis of year-to-year growth.





The strength of Gray Communications can be traced to the individual contributions made by each property and employee in the communities we serve. We are a growing Company that recognizes

the value of connections.



Television

▲	Station	NW Affiliation	Market	DMA Rank[1]	Station Rank in DMA	News Rank in DMA	Estimated Market Revenues in DMA for 1999[2]	TV Households[1]	In-Market Share of Households Viewing TV[1]	Pro Forma Percentage of 1999 Revenues
1	WVLT	CBS	Knoxville, TN	63	2	3	$73,100	452,000	22%	6.1%
2	WKYT	CBS	Lexington, KY	66	1	1	54,200	416,000	36	10.4
3	WYMT[3]	CBS	Hazard, KY	66	1	1	5,600[3]	174,000	27	3.1
4	KWTX/KBTX	CBS	Waco/Bryan, TX	94	1	1	30,200	286,000	39	10.3
5	KOLN/KGIN	CBS	Lincoln/Grand Island, NE	101	1	1	26,200	260,000	47	7.0
6	WITN	NBC	Greenville, NC	106	1	1	31,900	241,000	32	5.3
7	WCTV	CBS	Tallahassee,FL/ Thomasville, GA	109	1	1	23,700	230,000	58	8.0
8	WRDW	CBS	Augusta, GA	115	1	1	33,500	228,000	35	6.0
9	WEAU	NBC	Eau Claire, WI	129	1	1	24,400	182,000	32	4.8
10	WJHG	NBC	Panama City, FL	157	1	1	12,200	123,000	50	3.4
11	KXII	CBS	Sherman, TX/Ada, OK	160	1	1	8,200	114,000	70	4.2

[1] *Source: Nielsen Media Research, November 1999*

[2] *Source: BIA Research - Investing in Television 1999 - 4th Edition; estimated market revenues in DMA are in thousands.*

[3] *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. Their total market revenues in DMA are representative of WYMT's gross revenues for 1999.*

Newspaper

■	Publication	Market	Estimated Population	Households	Circulation Daily	Circulation Sunday	Editions	Pro Forma Percentage of 1999 Revenues
12	Gwinnett Daily Post	Gwinnett County, GA	699,000	251,000	63,000	63,000	6 days, Tues-Sun	7.8%
13	The Albany Herald	Albany, GA	121,000	42,000	30,000	33,000	7 days	10.1
14	The Goshen News	Goshen, IN	181,000	66,000	18,000	18,000	7 days	3.5
15	The Rockdale Citizen	Rockdale County, GA	131,000	47,000	17,000	17,000	7 days	2.4

Telecommunications

●	Operation	Market	# of Units in Service	Pro Forma Percentage of 1999 Revenues
16	Porta-Phone Paging	AL, FL and GA	88,000	5.6%

Selected Financial Data

	Year Ended December 31,				
	1999 (1)	**1998 (1)**	**1997 (1)**	**1996 (2)**	**1995**
	(in thousands, except per share data)				
Statement of Operations Data					
Revenues	$ 143,953	$ 128,890	$ 103,548	$ 79,305	$ 58,616
Operating income (3)	22,060	24,927	20,730	16,079	6,860
Income (loss) from continuing operations	(6,315)	41,659	(1,402)	5,678	931
Income (loss) from continuing operations available to common stockholders	(7,325)	40,342	(2,812)	5,302	931
Income (loss) from continuing operations available to common stockholders per common share (4):					
Basic	(0.57)	3.38	(0.24)	0.65	0.14
Diluted	(0.57)	3.25	(0.24)	0.62	0.14
Cash dividends per common share (4)	$ 0.08	$ 0.06	$ 0.05	$ 0.05	$ 0.05
Other Financial Data					
Media Cash Flow (5)	$ 50,944	$ 46,624	$ 38,061	$ 27,952	$ 15,559
Cash flow provided by (used in):					
Operating activities	20,842	20,074	9,744	12,092	7,600
Investing activities	(126,780)	(55,299)	(57,498)	(205,068)	(8,929)
Financing activities	$ 105,839	$ 34,744	$ 49,071	$193,467	$ 1,331
Balance Sheet Data (at end of period)					
Total assets	$ 658,157	$ 468,974	$ 345,051	$298,664	$ 78,240
Long-term debt (including current portion)	381,702	270,655	227,076	173,368	54,324
Total stockholders' equity	$ 168,188	$ 126,703	$ 92,295	$ 95,226	$ 8,986

(1) See Note B to the Company's Audited Consolidated Financial Statements included elsewhere herein with respect to acquisitions and dispositions.

(2) On September 30, 1996, the Company purchased from First American Media, Inc. substantially all of the assets used in the operation of WVLT-TV and WCTV-TV as well as the assets used in the operations of a satellite uplink and production services business and a communications and paging business. On January 4, 1996, the Company purchased substantially all of the assets of WRDW-TV. The Company sold the assets of KTVE Inc. on August 20, 1996.

(3) Operating income excludes gain on disposition of television stations of $72.6 million recognized for the exchange of WALB-TV in 1998 and $5.7 million recognized for the sale of KTVE Inc. in 1996. Operating income also excludes charges relating to valuation adjustments of goodwill and other assets of $2.1 million for the year ended December 31, 1998.

(4) On August 20, 1998, the Company's Board of Directors authorized a 50% stock dividend, payable on September 30, 1998, to stockholders of record of the Class A and Class B Common Stock on September 16, 1998 to effect a three for two stock split. Also on August 17, 1995, the Company's Board of Directors authorized a 50% stock dividend on the Company's Class A Common Stock payable on 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 these stock splits.

(5) See Note J to the Company's Audited Consolidated Financial Statements included elsewhere herein with respect to the computation of Media Cash Flow.

"WYMT-TV is the best thing to happen to eastern Kentucky since roads."

THE HONORABLE WENDELL FORD
Former U.S. Senator, Kentucky

To Our Shareholders

Our overriding mission is to be the primary provider of news and/or entertainment to people living in the communities we serve.

We are pleased to report that 1999 has again been a year of substantial growth for our Company. We have grown through two selective acquisitions, we have grown by strengthening our existing operations and we have grown in the ways we maintain day-to-day connections with our employees and consumers.

Our overriding mission is to be the primary provider of news and/or entertainment to people living in the communities we serve. Gray is fortunate to have a dedicated and professional group of employees who believe in this mission, and who work hard to make a positive difference in the lives of their neighbors. We are very proud of the news services we provide. We are also pleased to be distinguished by the meaningful contributions made to the well-being of our localities.

Examples of this public spiritedness abound wherever Gray has a presence. For instance, WITN-TV provided local residents around-the-clock reports of the devastating flooding in North Carolina, and then spearheaded a relief telethon that raised more than $2.5 million for area victims. The Albany Herald rallied its community to participate in the national "Make a Difference Day Campaign," an annual event that traditionally earns the paper national awards for its success in championing volunteerism. In a single day our new Texas stations, KWTX and KBTX, led a drive that raised more than 381 tons of food for local food banks.

These basic but vital services touch people's lives, allowing us to build and maintain trust with our viewers and readers. In turn, strong community bonds allow us to increase our business and maximize our ability to grow and dominate our local revenue base.

Gray completed two significant acquisitions in 1999. In March the publishing division acquired The Goshen News for $16.7 million. Serving the citizens of Goshen, Indiana, the paper has 18,000 subscribers. We are very proud to report that, under our stewardship, The Goshen News added a Sunday edition in August of 1999 and exceeded our operational expectations in the 10 months since its acquisition.

In October the broadcast division completed the acquisition of three top-rated CBS-affiliated television stations: KWTX serving Waco, Texas; KBTX serving Bryan and College Station, Texas; and KXII serving Sherman, Texas and Ada, Oklahoma. The combined acquisitions totaled $146.4 million, $49.5 million of which was financed by issuing approximately 3.4 million shares of our Class B Common Stock. The remaining acquisition cost was financed through issuing $94.4 million of long-term debt and cash on hand of approximately $2.5 million.

The Company's main operating businesses continued to perform exceptionally well in 1999. Of the 13 television stations in our broadcast group, 12 led their markets in local news viewership. In addition, 12 stations ranked as their viewers' number one choice for overall programming, with the remaining station tying for second place in its respective market. Few broadcast companies can boast as many market-leading stations.

From a financial perspective, our revenues grew a healthy 12 percent and our Media Cash Flow grew nine percent between 1999 and 1998. Due to the absence of significant revenues from political advertising, 1999 was a challenging year for the broadcast division. However, we are very pleased to report that the publishing division revenue grew 29 percent and its Media Cash Flow increased by a stunning 75 percent.

This growth reflects not only the acquisition of The Goshen News but also the significant improvement in operating results at the Gwinnett Daily Post, a paper serving one of the largest and fastest-growing counties in suburban Atlanta. Over the past few years, the Gwinnett Daily Post has steered a rapid escalation in its subscriber base, from approximately 49,000 in 1997 to 63,000 at the end of 1999. We knew that this strategic business plan would create a negative Media Cash Flow in the short term, and that a turnaround would soon follow. Consistent profitability was achieved in the summer of 1999, with operations essentially ending the year at the breakeven point. Growing from annual revenues of just under $2.5 million in 1995, the paper earned revenues of $12.6 million in 1999.

Gray continues to capitalize on new technologies and non-traditional revenue sources that add substance to our individual brands.

Innovation is essential in an ever-changing world. Gray continues to capitalize on new technologies and non-traditional revenue sources that add substance to our individual brands. We are aggressively utilizing the Internet to fortify communities and build new frameworks for revenue growth. We are also creating lucrative enterprises, such as community expos, which add revenues outside of traditional ad sales models.

In 2000 Gray will begin broadcasting in high definition television (HDTV) at several of our stations. Our CBS-affiliated television station, WRDW, in Augusta, Georgia will broadcast the Masters Golf Tournament and the NCAA Basketball Championship game in HDTV. Other Gray stations should follow in the implementation of HDTV by the end of 2000. All of Gray's stations will be broadcasting in the HDTV format by the federally mandated deadline of May 2002.

As we look back on 1999 and ahead to 2000, we see the underlying value of the Company continuing to grow – through our selective acquisitions, improved operating results and the dedication of employees who serve as Gray's ambassadors to the people in their communities. This strategy continues to build long-term value for all shareholders. Realizing that this value has not been fully appreciated by the market's valuation of our stock, we pledge continued and sincere efforts to bring new market appreciation to the value of your investment in our Company.

J. Mack Robinson
President and Chief Executive Officer

Robert S. Prather, Jr.
Executive Vice President - Acquisitions

“As I have been sitting in front of the TV since 5:00 am this morning I have again felt the pride of being an Aggie and of living in the Brazos Valley area. My heart has been heavy and the tears have flowed as I have listened to your coverage of the Bonfire collapse. Your sensitivity, caring, professionalism and sense of Aggie Family have impressed me greatly.”

URSULA EKVALL
Madisonville, Texas

Gray Communications Systems, Inc. is a Company based on a century of dedicated service to local communities. Over the past seven years, that solid foundation has been infused with a new sense of energy and direction. The result is growth – *internal growth* achieved by significantly strengthening the performance of existing operations and *external growth* generated by the acquisitions of well-run properties that dominate their markets.

None of this growth would be possible without our strong orientation to people, places, opportunity and responsibility. The story of Gray in 1999 is the story of a Company connecting to the factors that matter the most.

Connecting with Focus

The one characteristic that most exemplifies Gray Communications Systems, Inc. is its strong community focus. To our stations and newspapers, “local” is a deeply rooted heritage that finds expression in countless acts of hometown support and involvement.

Many of our broadcast stations are located in cities with large universities. When the 90-year tradition of Bonfire at the Texas A&M campus turned into heart-wrenching tragedy, KBTX responded with unfailing professionalism – balanced with personal appreciation for what the community was experiencing. This is the kind of local sensitivity that Gray embodies – whether we're covering a third grade spelling contest in Albany, Georgia, broadcasting a championship game in Lincoln, Nebraska or organizing a charity drive in Eau Claire, Wisconsin.

Yes, people turn to our channels and pages in record numbers for reliable, in-depth information. But they also turn to us for leadership, energy and the kind of strength that pulls a community together. Ultimately this loyalty translates into exceptional brand identity and shareholder value.

The one characteristic that most exemplifies Gray is its strong community focus. To our properties, “local” is a deeply rooted heritage that finds expression in countless acts of hometown support and involvement.

"I am so proud of Mike Weeks, President and General Manager of WITN-TV, for the accomplishments of the Hurricane Floyd Relief Telethon/Radiothon. Raising $2.5 million in six hours in a regional event is big."

TOM MALLISON
Greenville, North Carolina

Connecting with Synergy

Gray's greatest asset is its people. The whole emphasis for our Company starts and ends with our employees. We set very ambitious goals. To achieve them, we rely on the synergy of excellent associates in all positions.

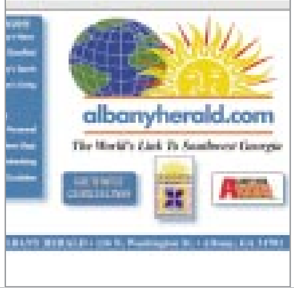
Often this synergy transcends properties. For example, CBS has the television rights to the Masters Golf Tournament. The network will use its engineering expertise to help convert WRDW to an HDTV facility in April of 2000 so that Masters coverage can be seen in high definition. Engineers from other Gray stations will be on hand to learn from the conversion, jump-start their own implementations and help achieve a strong competitive advantage in each market. Since Gray is one of the larger owners of CBS-affiliated stations in the U.S., the venture is a win-win situation for the network as well as the Company.

Our Georgia publications in Rockdale and Gwinnett Counties also exemplify productive collaboration. By sharing administrative personnel, management and production facilities, the properties achieve impressive economies of scale while maintaining their local identities. Additionally, The Rockdale Citizen expanded into a new county and added a Sunday edition in February 2000, modeling its strategy after Gray's success with The Goshen News and Gwinnett Daily Post. This kind of leverage helped the Rockdale property grow Media Cash Flow from $91 thousand in 1995 to $1.0 million in 1999.

Gray's greatest asset is its people. The whole emphasis for our Company starts and ends with our employees.

Connecting with Innovation

The Internet is enabling many Gray properties to generate new revenue from existing broadcast and publication content. Some stations are putting live newscasts on their web sites, creating revenue opportunities from banner ads. Editions of the Gwinnett Daily Post, The Albany Herald and The Rockdale Citizen are reproduced on the Internet exactly as they're delivered to subscribers' doorsteps, allowing the papers to collect a surcharge from advertisers for the extra exposure. While modest at present, these non-traditional revenue streams set the stage for future income growth in an ever-changing communications environment.



Gray is also partnering with the North Carolina firm of Koz.com to help our communities benefit from the power of the Internet. Koz.com will create and maintain web sites for local organizations such as civic groups, Little League teams and service clubs in each Gray market. The sites are co-located with the web sites of our stations and publications, so that Gray's properties become the portals through which people gain easy access to their local information. We view this cyber connection as a natural extension of our community relationships.

WYMT has taken the cyber concept even further. The station is the only source of daily news in the mountains of eastern Kentucky. Through its news gathering and reporting, WYMT connects residents who were once separated by geographical barriers. Now WYMT is helping this region connect to the world, by creating eMountain Mall. This innovation gives cottage businesses the opportunity to "go global" and market their exclusive eastern Kentucky items worldwide via the Internet. WYMT provides rental space to the businesses within the framework of its web site. The Mall is driven by on-air advertising, boosting income sources for the station as it contributes to the financial strength of its service area.

Other revenue alternatives include using the power of local television and our promotional prowess to support expositions such as the successful Boat and RV show in Lexington, Kentucky. Income from these events is generated through ticket sales and space sold to exhibitors. Gaining revenue from non-traditional sources helps Gray stations balance the biennial cycle of political spending.

Connecting With Value

Gray takes seriously our individual and collective commitments to our communities, employees and shareholders. Our proven strategy for success is to maintain and acquire excellent properties, market them aggressively and maximize their potential for future contributions to the Company's operations. Our disciplined acquisition program is extremely selective. From the top down, we maintain a culture that focuses on building long-term shareholder value, as well as the value of our franchises. The benefit of this business philosophy is evidenced by a sound record of growth. With 1999 revenues totaling $144 million, Gray is poised for ongoing achievement.

From the top down, we maintain a culture that focuses on building long-term shareholder value, as well as the value of our franchises.

Ray Deaver
Regional Vice President – Texas

Wayne Martin
Regional Vice President

Tom Stultz
President – Publishing Division

Connecting with Leadership

The financial and operational strengths of our Company are shored by a leadership team that blends vision with experience and practical expertise.

J. Mack Robinson Serving as President and Chief Executive Officer since 1996, Mack Robinson brings to Gray a wealth of experience. He is Chairman of the Board of Bull Run Corporation, Chairman of the Board and President of Delta Life Insurance Company and Delta Fire and Casualty Insurance Company, Chairman of the Board of Atlantic American Corporation and Director *Emeritus* of Wachovia Corporation.

Robert S. Prather, Jr. Our Executive Vice President – Acquisitions assumed the office in 1996 and also serves as President and Chief Executive Officer of Bull Run Corporation. From 1971 to 1980, Bob was Vice President of Fuqua Industries, where he was responsible for the search, analysis and negotiation of approximately 35 Fuqua acquisitions.

Ray M. Deaver In October 1999, Ray Deaver was appointed the Company's Regional Vice President – Texas. Ray has more than 38 years of television broadcast experience and currently serves as Chairman Elect of the CBS Television Network Affiliates Advisory Board. He is also President of Gray Communications of Texas, Inc. and Gray Communications of Texas – Sherman, Inc., which operate our Texas stations: KWTX, KBTX and KXII.

Wayne M. Martin With more than 14 years of broadcast experience, Wayne Martin serves as the Company's Regional Vice President. He is also President of WVLT in Knoxville and President of Gray Kentucky Television, Inc., which operates WKYT and WYMT.

Thomas J. Stultz Twenty-nine years of experience in the newspaper industry have given Tom Stultz a knowledgeable perspective, which he applies as the Company's Vice President and President of the Publishing Division. Previously Tom was responsible for marketing initiatives and the supervision of publications as Vice President of Multimedia, Inc.

Robert A. Beizer Gray's Vice President for Law and Development and Secretary since 1996, Bob Beizer is a past president of the Federal Communications Bar Association. He has represented media companies before the Federal Communications Commission for more than 25 years.

James C. Ryan Having served as Chief Financial Officer of Busse Broadcasting Corporation since 1987, Jim Ryan was appointed Gray's Vice President and Chief Financial Officer when Gray acquired Busse Broadcasting in 1998.

The financial and operational strengths of Gray are shored by a leadership team that blends vision with experience and practical expertise.

Television

WVLT, Knoxville, TN

Known to viewers as Volunteer TV, the very name of this dynamic station echoes the spirit of the University of Tennessee Volunteers' athletic teams, as well as the character of East Tennesseans. WVLT has been in Knoxville, a city within a day's drive of half of the nation's population, for more than 40 years. Acquired by Gray in 1996, it has risen from third place to #2 in its market. As part of its determined climb to the top, WVLT has added weekend news coverage and a new focus on the community. Viewers now regard the station as an area resource - one that provides a great deal more than syndicated programming.

1998 EMMY award to Chief Meteorologist Rick Katzfey, for Weathercasting and Chelse Benham, Producer, for "Celebrating Knoxville"

WKYT, Lexington, KY

WKYT is the overwhelming leader in a high-energy area, reigning for 29 years as Lexington's #1 news station. WKYT was the first Kentucky station to stream its newscast live over the Internet. Residents look to the station in record numbers for University of Kentucky sports coverage and local programming. In return, WKYT gives back to the community with non-stop generosity. Its annual Children's Charity Golf Classic raised $272,000 in 1999. Over the holidays, WKYT arranged "miracles" for 100+ people - including a private flight to a Pittsburgh hospital for a severely ill young woman who could not fly commercially.

1999 Kentucky Association of Broadcasters' Golden Tower Award for outstanding community and public service

WYMT, Hazard, KY

Since its birth in 1985, WYMT has been the only local television station covering 26 counties in eastern and southeastern Kentucky. The Honorable Wendell Ford, former U.S. Senator, Kentucky, says "WYMT-TV is the best thing to happen to eastern Kentucky since roads." As the area's primary source for news, information and entertainment, WYMT is a fervent champion for the region. The station received the first-ever Regional Distinction Award recognizing its "For Our Sake" campaign, which affirms life in Kentucky and pride in mountain heritage. WYMT is a pioneer in generating non-traditional revenue. An example is "Traditions - A Kentucky Music Celebration," a bluegrass concert that is planned to become an annual event following its premiere in 2000.

1999 Kentucky Associated Press Broadcasters' Association for Category II Television Stations Best in the State - Sports Program, Special Sports Program, Public Affairs Program, Series Reporting, Investigative Reporting and Feature Report

KWTX, Waco-Temple-Killeen, TX

In central Texas, "news leader" is synonymous with "community leader." KWTX slips comfortably into both roles. Clearly, the station excels at daily news reporting (with superior ratings to prove it). Judging from its high regard in the community, KWTX is also expert in responding to concerns that affect daily life in its viewing area, which includes Baylor University and the world's largest military installation, Fort Hood. KWTX puts the viewer and best interests of Central Texas first, whether collecting tons of food in the largest food drive in Texas or a small mountain of gifts to benefit the annual "Toys For Tots" program.

1998 Central Texas Chapter of the National Society of Fund Raising Executives' Outstanding Philanthropic Business of the Year

KBTX, Bryan-College Station, TX

The Kiplinger Report has ranked Bryan-College Station among the top five U.S. cities having the fastest-growing population. Home to the nation's third largest University and research center, Texas A&M University, the market is a booming hub for commerce and industry. For 43 years, KBTX has been the area's kingpin station for local news, information and entertainment. The station can always be counted on to fill a spectrum of community needs - from Habitat for Humanity homes, to the annual KBTX Food For Families Food Drive and much more.

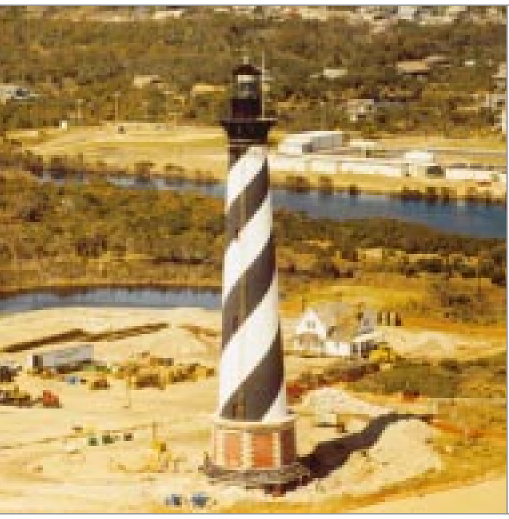
1999 Texas Associated Press Broadcasters' Association 1st Place - Spot News

KOLN/KGIN, Lincoln, NE

With two full-power VHF signals, KOLN/KGIN has dominated the Lincoln-Hastings-Kearney market since television's infancy. Today the Channel 10-11 powerhouse delivers more viewers than all of its competitors combined. KOLN/KGIN is the one and only University of Nebraska "Official Husker Station." It's also a respected contributor to community interests, such as growing concerns about violence. The station's ongoing "10/11 Against the Violence" project has earned local, regional and national awards, including the prestigious Iris Award from the National Association of Television Program Executives.

1998 National Association of Television Program Executives' IRIS Award for a series of public service announcements about child abuse -
10/11 Against The Violence

Television



WITN, Greenville-New Bern-Washington, NC

In 1999 WITN 7 News gave the global village an Internet view as the 9,600,000-pound Cape Hatteras Lighthouse was relocated 2,900 feet across the seascape. The unprecedented coverage attracted more than a million hits to WITN's web site, with millions more recorded at permission-linked sites on the World Wide Web. This is the kind of innovation North Carolinians expect from the market's premier station. WITN always sets the standard for local news, sports, weather and hurricane tracking. In 1999 this commitment resulted in raising WITN news ratings to a new 15-year high.

1998 Radio-Television News Director Association - National - Regional
Edward R. Murrow Award for Spot News Television - Small Market

WCTV, Tallahassee, FL-Thomasville, GA

Extreme dominance is an apt definition of WCTV. Covering a 70-mile radius market (which includes Florida State University, Florida A&M University and Tallahassee Community College), this CBS affiliate boasts a huge 58 in-market share. It also holds the distinction of having the top-rated newscasts for 40+ years. With a satellite news gathering vehicle and a microwave "live" unit, the station brings local community news to its entire coverage area. Additionally, WCTV shares its time, resources and staff to support every major civic or charitable event in the region.

1999 and 1998 Florida Associated Press' The Chris McGill Award -
Best Overall Coverage

WRDW, Augusta, GA

News 12 is teamwork in action. The station's Crime Team, Health Team, Education Team and Family Focus Team - all backed by a superior news staff – eclipse all other Augusta broadcast news organizations. WRDW pulls peerless ratings for news, access and prime time. Equally impressive is the station's record of community activism. From Time to Care outreach events to a jam-packed promotional calendar, News 12 is a constant and energetic presence in the Augusta area. For all of these reasons, WRDW was voted the 1999 Georgia Television Station of the Year by the Georgia Association of Broadcasters. The station will become the first Gray station and the first Augusta station to broadcast in HDTV, inaugurating this new era by telecasting the CBS network digital productions of the 2000 Masters Golf Tournament and the NCAA Basketball Championship Game.

1999 Georgia Association of Broadcasters' Georgia Television Station of the Year

WEAU, La Crosse-Eau Claire, WI

"Western Wisconsin's First Choice" is more than a promotional theme; it is WEAU's stated mission. Covering a 27-county area, WEAU has maintained market leadership in news for nearly two decades by focusing its coverage on all of the communities in its viewing area. During annual "Our Town" weeks, the station spotlights a different locale in its news, promotions and sales efforts – a strategy that generates revenue while sealing viewer preference. WEAU gears many of its community projects toward children and has received the Wisconsin Broadcasters Association's "Service to Children" award five out of the past six years.

1999 Wisconsin Broadcasters Association's 1st Place - Service to Children - Small Market (received 5 years out of the past 6 years)

WJHG, Panama City, FL

NewsChannel 7's ongoing drive to remain Northwest Florida's first choice for news resulted in two key additions in 1999: a one-hour Saturday morning newscast and a full hour weekday noon show. On an annual basis, this dedicated station is instrumental in raising hundreds of thousands of dollars for organizations such as the American Red Cross and the American Cancer Society. In an inventive pairing of community service and revenue production, WJHG organizes the annual Health Watch Expo. This year's event provided valuable health screenings and professional referrals free of charge to more than 1,000 area attendees.

1999 Florida Associated Press 1st Place - Best Sports, 2nd Place - Best Newscast

KXII, Sherman, TX-Ada, OK

In December 1999, Fortune Magazine named Dallas, TX the Best City in America for Business. The city is growing north at incredible speed, right toward the Sherman-Ada market just 40 miles away. KXII takes full advantage of this connection. Having been the #1 news and entertainment programming station for 40+ years, KXII uses every available marketing opportunity to enhance its involvement in the community. These activities parallel an impressive number of charitable events, all helping to engineer a 10 percent growth of early news share and a 28 percent growth of late news share over the last three years.

1999 Oklahoma Association of Broadcasters' Best Newscast, Best Sportscast, Best Special Sports Program and Best Single Feature

Newspaper

Gwinnett Daily Post, Gwinnett County, GA

In 1995 Gray purchased a small weekly paper in this teeming metropolitan Atlanta county. The Gwinnett Daily Post quickly became a thriving, innovative daily newspaper. In unique alliances, the paper began running a local news and entertainment television operation on channels leased from the local cable systems. In return, the cable systems purchase newspaper subscriptions for each of their subscribers. The strategy has helped boost the total paid circulation for the Gwinnett Daily Post to more than 63,000, creating a newspaper that 82% of readers selected as the dominant local newspaper in an October 1999 Belden research study.

1998 Suburban Newspapers of America 2nd Place - Best Front Page

The Albany Herald, Albany and Southwest GA

Gray's flagship property, The Albany Herald and its web site albanyherald.com are known as “The World's Link to Southwest Georgia.” The newspaper is a major force in the community named by Money Magazine in 1998 as Georgia's “most livable city” and one of the top smaller cities in the nation. Albany serves as the economic hub for all of Southwest Georgia, and The Albany Herald is central to the community. The Albany Herald is the only seven day per week newspaper serving the 24 counties of Southwest Georgia. The paper has gained national recognition for its tremendous success in organizing Make A Difference Day, an event that unites 12,000 individuals and civic organizations devoted to worthy causes. The paper galvanizes participation via steering committees, promotions, news stories and rallies.

USA Weekend Encore National Award for Make A Difference Day

The Goshen News, Goshen, IN

Delivery boys carrying bags of newspapers still walk through the streets of Goshen distributing The Goshen News. This practice, a tradition since 1837, is a strong tie connecting the city's 23,000+ residents. Explains one subscriber and supporter, “Without the newspaper, there would be no sense of community.” The Goshen News has been an excellent property for Gray. Since its acquisition in March of 1999, the newspaper has added a Sunday edition and has embarked on a strategic business plan designed to achieve efficient growth in circulation and advertising revenues.

1999 Hoosier State Press Association's Best News Exclusive Under Deadline - Reporter Sheila Gibson

The Rockdale Citizen, Conyers, GA

Founded in 1972, The Rockdale Citizen was acquired in 1994 and is now worth roughly three times its purchase price. The paper produced more than $1.0 million in Media Cash Flow in 1999. These increases can be attributed to a steady stream of management accomplishments. The robust newspaper has grown its advertising and circulation revenues, added two publication days, engineered an editorial redesign, moved to morning distribution and installed state-of-the-art production equipment. This equipment prints The Rockdale Citizen, its sister paper The Gwinnett Daily Post and The Newton Citizen, a new publication that The Rockdale Citizen launched in February 2000 to serve Newton County, Georgia. All three of these publications are located in suburban Atlanta.

1999 Georgia Associated Press 2nd Place - Sports Photography - Harvey Cowan

Telecommunications

Porta-Phone Paging, Tallahassee, FL

Porta-Phone was founded in 1974 to provide wireless services to the rural communities of South Georgia. Now operating from headquarters in Tallahassee, the company provides paging and wireless messaging to customers in Georgia, Florida and Alabama. Porta-Phone owns and manages two large area networks using leading-edge technology. Approximately 88,000 units are in service. In recent years, the paging business has grown by acquiring smaller independent paging operations, expanding its resale program, increasing its retail operations and increasing its geographical coverage area. This company will rebrand itself GrayLink during 2000, emphasizing its ability to keep customers linked to the world.

"We feel particularly strong about our newspaper . . .We simply wouldn't be a community without it."

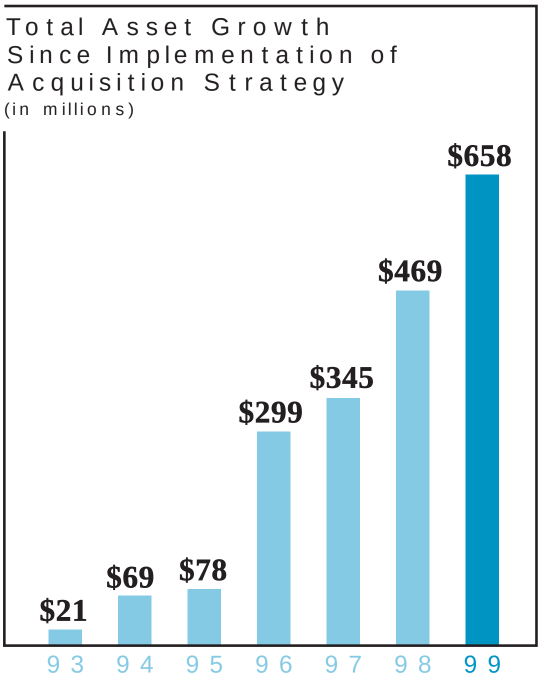
SAM WILLIS, PRESIDENT
Goshen Chamber of Commerce
Goshen, Indiana

Results of Operations of the Company

Introduction

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

As discussed below, the Company has acquired several television stations and a newspaper since January 1, 1997. 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.



1999 Acquisitions

On October 1, 1999, the Company completed its acquisition of all the outstanding capital stock of KWTX Broadcasting Company and Brazos Broadcasting Company, as well as the assets of KXII Broadcasters Ltd. The Company acquired the capital stock of KWTX Broadcasting Company and Brazos Broadcasting Company in merger transactions with the shareholders of KWTX Broadcasting Company and Brazos Broadcasting Company receiving a combination of cash and the Company's Class B Common Stock for their shares. The Company acquired the assets of KXII Broadcasters Ltd. in an all cash transaction. These transactions are referred to herein as the "Texas Acquisitions."

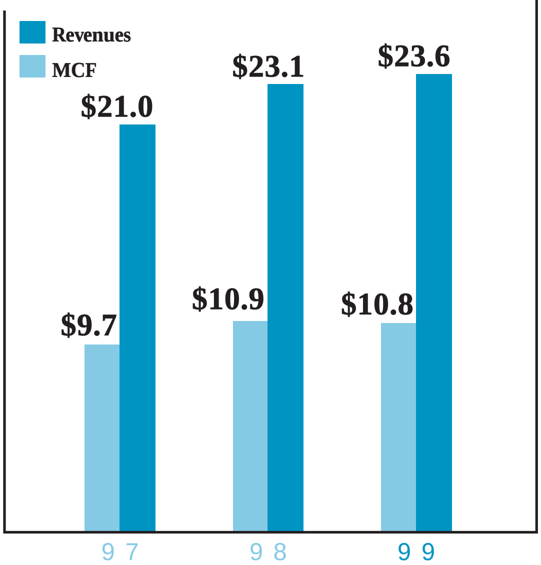
Aggregate consideration (net of cash acquired) paid in the Company's Class B Common Stock and cash was approximately $146.4 million which included a base purchase price of $139.0 million, transaction expenses of $2.8 million and certain net working capital adjustments (excluding cash) of $4.6 million. In addition to the amount paid, the Company assumed approximately $600,000 in liabilities in connection with the asset purchase of KXII Broadcasters Ltd. The Company funded the acquisitions by issuing 3,435,774 shares of the Company's Class B Common Stock (valued at $49.5 million) to the sellers, borrowing an additional $94.4 million under its $300.0 million senior bank loan agreement (the "Senior Credit Facility") and using cash on hand of approximately $2.5 million.

Results of Operations of the Company (*continued*)

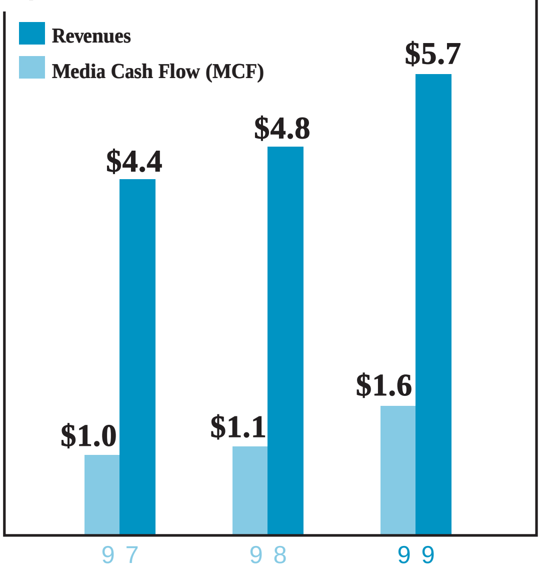
1999 Acquisitions (continued)

With the Texas Acquisition the Company added the following television stations to its broadcast segment: KWTX-TV the CBS affiliate located in Waco, Texas; KBTX-TV the CBS affiliate located in Bryan, Texas, each serving the Waco-Temple-Bryan, Texas television market and KXII-TV the CBS affiliate serving Sherman, Texas and Ada, Oklahoma. Under Federal Communications Commission (the "FCC") regulations, KBTX-TV is operated as a satellite station of KWTX-TV. The stations are collectively referred to herein as the "Texas Stations."

Texas Stations Pro Forma Operating Performance
(in millions)
Acquired October 1, 1999



The Goshen News Pro Forma Operating Performance
(in millions)
Acquired March 1, 1999



On March 1, 1999, the Company acquired substantially all of the assets of The Goshen News from News Printing Company, Inc. and affiliates thereof, for aggregate cash consideration of approximately $16.7 million including a non-compete agreement (the "Goshen Acquisition"). Based on the preliminary allocation of the purchase price, the excess of the purchase price over the fair value of the net tangible assets was approximately $14.1 million. The Goshen News is currently an 18,000-circulation newspaper published Monday through Sunday and serves Goshen, Indiana and surrounding areas. The Company financed the acquisition through borrowings under its Senior Credit Facility.

1998 Acquisitions and Divestiture

On July 31, 1998, the Company completed the purchase of all of the outstanding capital stock of Busse Broadcasting Corporation ("Busse"). The purchase price was approximately $126.6 million, less the accreted value of Busse's 11 5/8% Senior Secured Notes due 2000 (the "Busse Senior Notes"). The purchase price of the capital stock consisted of the contractual purchase price of $112.0 million, associated transaction costs of $3.9 million, acquisition costs associated with the Busse Senior Notes of $5.1 million and Busse's cash and cash equivalents of $5.6 million. Immediately following the acquisition of Busse, the Company exercised its right to satisfy and discharge the Busse Senior Notes, effectively prefunding the Busse Senior Notes at the October 15, 1998 call price of 106 plus accrued interest. The amount necessary to satisfy and discharge the Busse Senior Notes was approximately $69.9 million. Based on the final allocation of the purchase price, the excess of the purchase price over the fair value of net tangible assets acquired was approximately $121.6 million.

Results of Operations of the Company (*continued*)

1998 Acquisitions and Divestiture (continued)

Immediately prior to the Company's acquisition of Busse, Cosmos Broadcasting Corporation acquired the assets of WEAU-TV ("WEAU") from Busse and exchanged them for the assets of WALB-TV, Inc. ("WALB"), the Company's NBC affiliate in Albany, Georgia. In exchange for the assets of WALB, the Company received the assets of WEAU, which were valued at $66.0 million, and approximately $12.0 million in cash for a total value of $78.0 million. The Company recognized a pre-tax gain of approximately $72.6 million and estimated deferred income taxes of approximately $28.3 million in connection with the exchange of WALB. The Company funded the remaining costs of the acquisition of Busse's capital stock through borrowings under the Company's Senior Credit Facility.

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

1997 Acquisitions

On August 1, 1997, the Company purchased the assets of WITN-TV ("WITN"). The purchase price of approximately $41.7 million consisted of $40.7 million cash, $600,000 in acquisition related costs, and approximately $400,000 in liabilities which were assumed by the Company. The excess of the purchase price over the fair value of net tangible assets acquired was approximately $37.4 million. The Company funded the costs of this acquisition through borrowings under its Senior Credit Facility. WITN is the NBC affiliate in the Greenville-New Bern-Washington, North Carolina market. The acquisition of the assets of WITN is referred to as the "WITN Acquisition."

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

General

As a result of the acquisitions described above, the proportion of the Company's revenues derived from television broadcasting has increased significantly. The Company anticipates that the proportion of the Company's revenues derived from television broadcasting will increase further as a result of the completed acquisitions. As a result of the higher operating margins associated with the Company's television broadcasting operations, the profit contribution of these operations as a percentage of revenues, has exceeded, and is expected to continue to exceed, the profit contributions of the Company's publishing and paging operations. Certain information concerning the relative contributions of the Company's television broadcasting, publishing and paging operations is provided in *Note J* of the Notes to the Audited Consolidated Financial Statements included elsewhere herein.

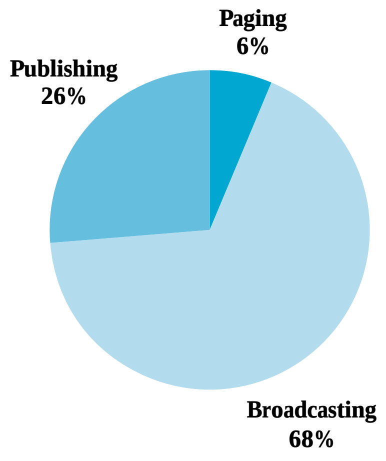
The Company derives its revenues from its television broadcasting, publishing and paging operations. The operating revenues of the Company's television stations are derived from broadcast advertising revenues and, to a much lesser extent, from compensation paid by the networks to the stations for broadcasting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

Results of Operations of the Company *(continued)*

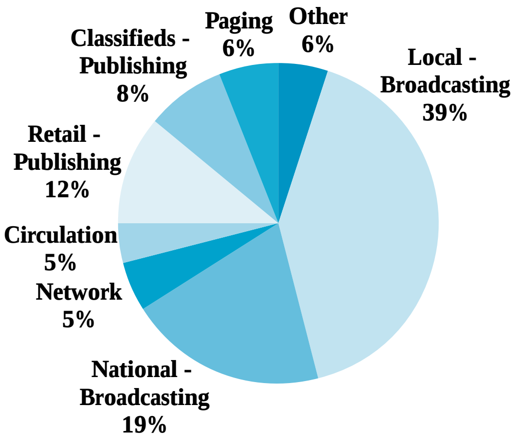
General (continued)

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

Sources of 1999 Historical Revenue



1999 Historical Revenue by Category



Most broadcast advertising contracts are short-term, and generally run only for a few weeks. Approximately 59% of the gross revenues of the Company's television stations for the year ended December 31, 1999, were generated from local advertising, which is sold primarily by a station's sales staff directly to local accounts, and the remainder represented primarily by national advertising, which is sold by a station's national advertising sales representative. The stations generally pay commissions to advertising agencies on local, regional and national advertising and the stations also pay commissions to the national sales representative on national advertising.

Broadcast advertising revenues are generally highest in the second and fourth quarters each year, due in part to increases in consumer advertising in the spring and retail advertising in the period leading up to and including the holiday season. In addition, broadcast advertising revenues are generally higher during even numbered election years due to spending by political candidates, which spending typically is heaviest during the fourth quarter.

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

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

Results of Operations of the Company *(continued)*

General (continued)

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.

Broadcasting, Publishing and Paging Revenues

Set forth below are the principal types of broadcasting, publishing and paging revenues earned by the Company's broadcasting, publishing and paging operations for the periods indicated and the percentage contribution of each of the Company's total broadcasting, publishing and paging revenues, respectively (dollars in thousands):

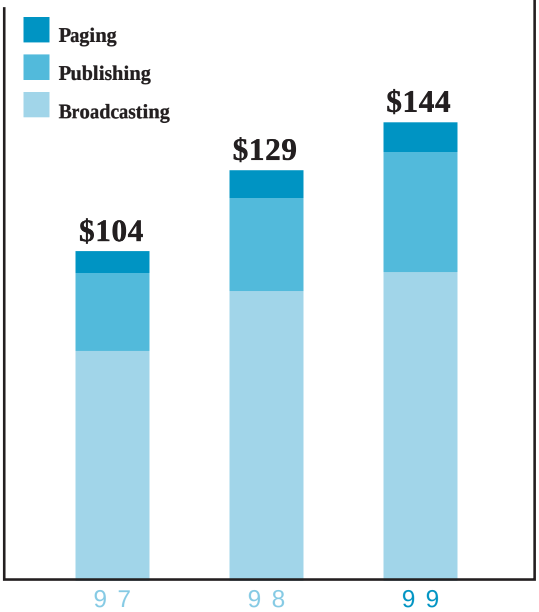
	Year Ended December 31,					
	1999		1998		1997	
	Amount	%	Amount	%	Amount	%
Broadcasting						
Net Revenues:						
Local	$ 57,078	39.7%	$ 47,258	36.7%	$ 40,486	39.1%
National	26,742	18.6%	23,824	18.5%	21,563	20.8%
Network compensation	6,480	4.5%	5,549	4.3%	4,977	4.8%
Political	622	0.4%	7,876	6.1%	137	0.1%
Production and other	6,093	4.2%	6,500	5.0%	5,137	5.0%
	$ 97,015	67.4%	$ 91,007	70.6%	$ 72,300	69.8%
Publishing						
Revenues:						
Retail	$ 17,760	12.3%	$ 14,159	11.0%	$ 11,936	11.5%
Classifieds	12,039	8.4%	9,106	7.1%	7,344	7.1%
Circulation	6,791	4.7%	5,315	4.1%	4,779	4.6%
Other	1,218	0.9%	750	0.6%	477	0.5%
	$ 37,808	26.3%	$ 29,330	22.8%	$ 24,536	23.7%
Paging						
Revenues:						
Paging lease, sales and service	$ 9,130	6.3%	$ 8,553	6.6%	$ 6,712	6.5%
Total	$143,953	100.0%	$128,890	100.0%	$103,548	100.0%

Year Ended December 31, 1999 to Year Ended December 31, 1998

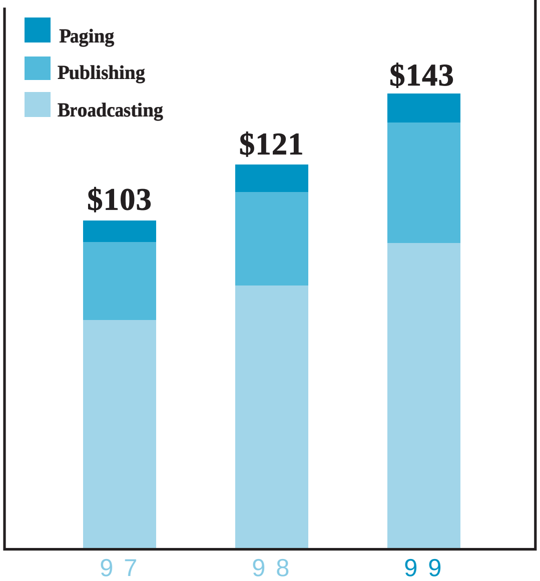
Revenues. Total revenues for the year ended December 31, 1999 increased $15.1 million, or 11.7%, over the same period of the prior year, to $144.0 million from $128.9 million. This increase was primarily attributable to the net effect of (i) increased revenues resulting from the acquisition of the Texas Stations, The Goshen News and the Busse Stations, (ii) increased publishing revenues from existing publishing operations and (iii) increased paging revenues. These increases were partially offset by decreased revenues resulting from the disposition of WALB and decreased political advertising revenue.

Year Ended December 31, 1999 to Year Ended December 31, 1998 (*continued*)

Historical Revenues
(in millions)



Historical Revenues
(excluding political)
(in millions)



Broadcasting revenues increased $6.0 million, or 6.6%, over the same period of the prior year, to $97.0 million from $91.0 million. The revenue from the Texas Stations increased broadcasting revenues by $6.2 million. The revenue from the Busse Stations increased broadcasting revenues by $9.7 million. These increases were partially offset by a decrease of $6.8 million in revenues resulting from the sale of WALB and by a decrease in political advertising revenue in 1999.

On a pro forma basis, assuming the Texas and Busse Acquisitions and the WALB disposition had been effective January 1, 1998, broadcasting revenues for the year ended December 31, 1999 decreased $4.5 million, or 3.8%, over the same period of the prior year, to $114.4 million from $118.9 million. The pro forma decrease in broadcasting revenue reflects a decrease in political advertising revenues of $8.3 million offset in part by an increase in local advertising of $4.2 million.

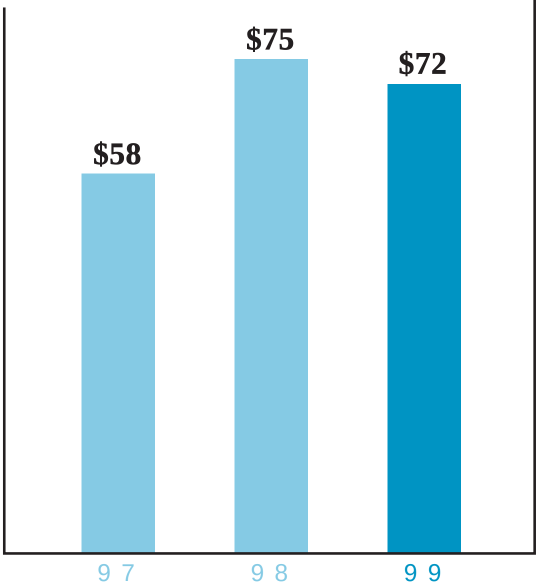
On a pro forma basis, assuming the acquisition of the Texas Stations had been effective on January 1, 1998, broadcasting revenues for the Texas Stations for the year ended December 31, 1999 increased $531,000, or 2.3%, when compared to the same period of the prior year to $23.6 million from $23.1 million. The pro forma increase in revenue for the Texas Stations reflects an increase in local revenue of $2.1 million offset in part by a decrease in political advertising revenue of $1.1 million and national revenue of $474,000, respectively.

On a pro forma basis, assuming the acquisition of the Busse Stations had been effective on January 1, 1998, broadcasting revenues for the Busse Stations for the year ended December 31, 1999 decreased $1.8 million, or 8.6%, when compared to the same period of the prior year to $19.1 million from $20.9 million. The decrease in revenue on a pro forma basis for the Busse Stations was due primarily to a decrease in political advertising revenue of $1.6 million in 1999.

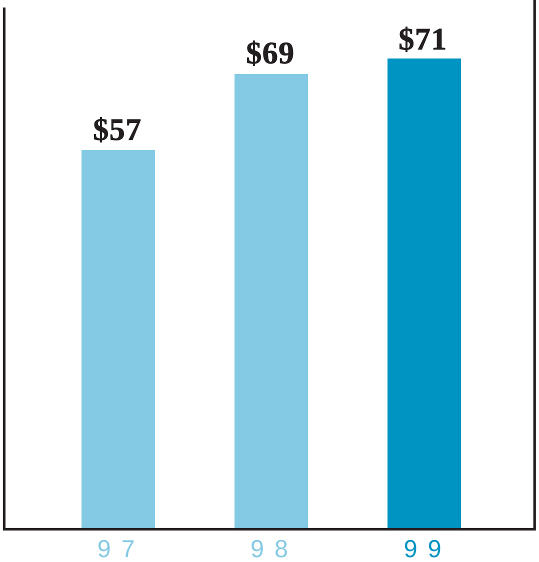
Broadcasting revenues from operations continuously owned since January 1, 1998 decreased $3.2 million, or 4.3%, over the same period of the prior year, to $71.7 million from $74.9 million. This decrease was due primarily to a decrease in political advertising revenue of $5.5 million offset in part by increased local revenue of $2.3 million.

Year Ended December 31, 1999 to Year Ended December 31, 1998 (*continued*)

Broadcast Revenues of Continuously Owned Operations
(in millions)

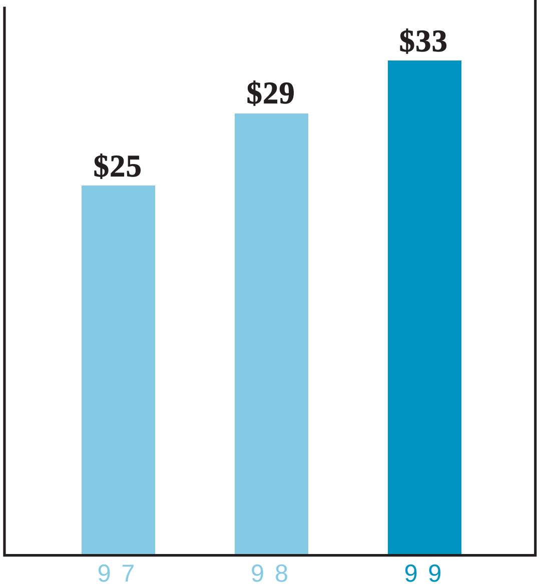


Broadcast Revenues of Continuously Owned Operations (excluding political)
(in millions)



Publishing revenues increased $8.5 million, or 28.9%, over the same period of the prior year, to $37.8 million from $29.3 million. The increase in publishing revenues was due primarily to increased revenues from the Company's existing publishing operations and from the revenues generated by The Goshen News, which was acquired on March 1, 1999. Revenues from the Company's existing publishing operations continuously owned since January 1, 1998 increased $3.5 million, or 11.9%, over the same period of the prior year, to $32.8 million from $29.3 million. The primary components of the $3.5 million increase in revenues from existing operations were increases in retail advertising, classified advertising and circulation revenue of $1.3 million, $1.6 million and $349,000, respectively. The Goshen News provided revenues of $5.0 million from the date of its purchase through December 31, 1999. On a pro forma basis, assuming that the Goshen Acquisition had been completed on January 1, 1998, revenue for The Goshen News increased $887,000, or 18.6%, to $5.7 million from $4.8 million, as compared to the same period of the prior year.

Publishing Revenues of Continuously Owned Operations
(in millions)



Paging revenue increased $577,000, or 6.7%, over the same period of the prior year, to $9.1 million from $8.6 million. The increase was attributable primarily to an increase in the number of pagers in service. The Company had approximately 88,000 pagers and 86,000 pagers in service at December 31, 1999 and 1998, respectively.

Year Ended December 31, 1999 to Year Ended December 31, 1998 (*continued*)

Operating expenses. Operating expenses for the year ended December 31, 1999 increased $17.9 million, or 17.2%, over the same period of the prior year, to $121.9 million from $104.0 million. The increase resulted primarily from the Company's acquisitions in 1999 and 1998, net of the 1998 disposition of WALB.

Broadcasting expenses increased $5.7 million or 10.7%, over the year ended December 31, 1999, to $58.7 million from $53.0 million. The expenses from the Texas Stations and Busse Stations accounted for an increase in broadcasting expenses of $3.2 million and $5.4 million respectively. This increase was partially offset by a decrease in expenses of $2.9 million resulting from the disposition of WALB.

On a pro forma basis, assuming the Texas Acquisitions and the Busse-WALB Transactions had been effective January 1, 1998, broadcasting expenses for the year ended December 31, 1999 increased $591,000, or 0.9%, over the same period of the prior year, to $68.2 million from $67.6 million. This change reflects increases in syndicated film and other costs offset in part by decreased payroll costs.

On a pro forma basis, assuming the Texas Acquisitions had been effective on January 1, 1998, broadcasting expenses for the Texas Stations for the year ended December 31, 1999 increased $469,000, or 3.8%, to $12.7 million from $12.2 million. On a pro forma basis, assuming the acquisition of the Busse Stations had been effective on January 1, 1998, broadcasting expenses for the Busse Stations for the year ended December 31, 1999 increased $125,000, or 1.3%, to $9.6 million from $9.5 million.

Broadcasting expenses from operations continuously owned since January 1, 1998 were essentially unchanged between 1999 and 1998 at $45.8 million per year. During 1999, decreases in payroll and other expenses of $110,000 and $600,000, respectively, offset an increase in syndicated film costs of $704,000.

Publishing expenses for the year ended December 31, 1999 increased $4.6 million, or 18.9%, from the same period of the prior year, to $28.8 million from $24.2 million. The increase in publishing expenses was due primarily to increased expenses from the Company's existing publishing operations and from the expenses of The Goshen News. Expenses from the Company's publishing operations owned since January 1, 1998 increased $1.1 million, or 4.5%, over the same period of the prior year, to $25.3 million from $24.2 million. The increase in expenses at the Company's existing publishing operations was due primarily to payroll and transportation costs associated with increased circulation at one of the Company's daily newspapers. The Goshen News recorded expenses of $3.5 million for the year ended December 31, 1999. On a pro forma basis, assuming that the Goshen Acquisition had been completed on January 1, 1998, expenses for The Goshen News increased $426,000, or 11.6%, to $4.1 million from $3.7 million, as compared to the same period of the prior year reflecting in part the commencement of a Sunday edition as of August 1, 1999.

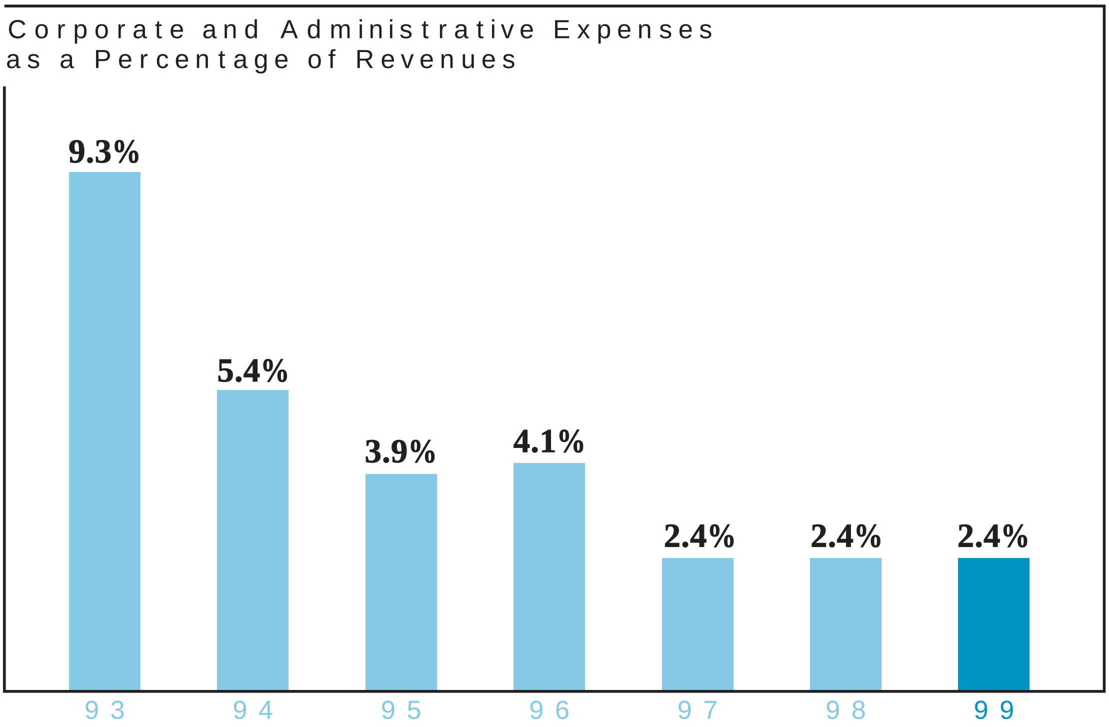
Paging expenses increased $932,000 or 16.6%, over the same period of the prior year, to $6.6 million from $5.6 million. The increase was attributable primarily to an increase in payroll and other costs associated with an increase in the number of pagers in service.

Corporate and administrative expenses increased $385,000 or 12.6%, over the same period of the prior year, to $3.4 million from $3.1 million. This increase was primarily attributable to increased payroll expense.

Depreciation of property and equipment and amortization of intangible assets was $24.5 million for the year ended December 31, 1999, as compared to $18.1 million for the prior year, an increase of $6.4 million, or 35.0%. This increase was primarily the result of higher depreciation and amortization costs resulting from the Texas Acquisitions and the Goshen Acquisition in 1999 and the acquisition of the Busse Stations in 1998.

Gain on exchange of television station. In 1998, the Company recognized a pre-tax gain of approximately $72.6 million and estimated deferred income taxes of approximately $28.3 million in connection with the exchange of WALB. No similar transaction occurred in 1999.

Year Ended December 31, 1999 to Year Ended December 31, 1998 (*continued*)



Valuation adjustments of goodwill and other assets. In 1998, the Company recognized an expense of $2.1 million for a decrease in the value of certain assets for the year ended December 31, 1999. No comparable expense was incurred in 1999.

Miscellaneous income (expense). Miscellaneous income for the year ended December 31, 1999 was $336,000 and miscellaneous expense for the year ended December 31, 1998 was $242,000. The change in miscellaneous income (expense) of $578,000 was due primarily to the gain of $450,000 recognized upon the sale of a portion of the Southwest Georgia Shopper, Inc. in February 1999.

Interest expense. Interest expense increased $5.5 million, or 21.9%, to $31.0 million for the year ended December 31, 1999 from $25.5 million for the year ended December 31, 1998. This increase was attributable primarily to increased levels of debt resulting from the financing of the Texas Acquisitions and the Goshen Acquisition in 1999 and the financing of the acquisition of the Busse Stations in 1998.

Income tax expense (benefit). Income tax benefit for the year ended December 31, 1999 was $2.3 million and income tax expense for the year ended December 31, 1998 was $28.1 million. The decrease in income tax expense of $30.4 million was due primarily to the recognition of a net loss before tax in the current year as compared to the effect of a $72.6 million gain on exchange of a television station in connection with the disposition of WALB in 1998.

Net loss available to common stockholders. Net loss available to common stockholders of the Company was $7.3 million for the year ended December 31, 1999 as compared to net income available to common stockholders of the Company of $40.3 million for the year ended December 31, 1998, a decrease of $47.6 million. The primary reason for the decrease was due to the net gain of $44.3 million recorded for the disposition of WALB in 1998.

Year Ended December 31, 1998 to Year Ended December 31, 1997

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

Broadcast net revenues increased $18.7 million, or 25.9%, over the same period of the prior year, to $91.0 million from $72.3 million. The acquisition of the Busse Stations and the WITN Acquisition accounted for $9.3 million and $5.5 million of the broadcast net revenue increase, respectively. On a pro forma basis, assuming the Busse-WALB Transactions had been effective on January 1, 1997, broadcast net revenues for the Busse Stations for the year ended December 31, 1998, increased $1.9 million, or 10.1%, over the same period of the prior year, to $20.9 million from $19.0 million. On a pro forma basis, assuming the WITN Acquisition had been effective on January 1, 1997, broadcast net revenues for WITN for the year ended December 31, 1998 increased $939,000, or 12.0%, over the same period of the prior year, to $8.8 million from $7.8 million. Broadcast net revenues from operations continuously owned since January 1, 1997 increased $6.1 million, or 10.6%, over the same period of the prior year, to $63.6 million from $57.5 million. This increase was due primarily to an increase in political advertising revenue of $5.4 million. The disposition of WALB resulted in a decrease in net broadcast revenue of approximately $3.3 million.

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

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

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

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

Year Ended December 31, 1998 to Year Ended December 31, 1997 (*continued*)

Publishing expenses for the year ended December 31, 1998 increased $4.4 million, or 22.5%, from the same period of the prior year, to $24.2 million from $19.8 million. This increase resulted primarily from an increase in the expense associated with the increase in circulation at the Gwinnett Daily Post to 64,000 at December 31, 1998 from 49,000 at December 31, 1997.

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

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

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

Gain on exchange of television stations. The Company recognized a pre-tax gain of approximately $72.6 million and estimated deferred income taxes of approximately $28.3 million in connection with the exchange of WALB.

Valuation adjustments of goodwill and other assets. The Company recognized an expense of $2.1 million for a decrease in the value of certain assets for the year ended December 31, 1998. The primary components of the expense was a decrease in value of goodwill related to the Southwest Georgia Shopper, Inc. of $1.3 million and a decrease in value of certain real estate holdings of $433,000. A portion of the Southwest Georgia Shopper, Inc.'s operations were sold in the first quarter of 1999 for a gain of approximately $450,000 and its remaining operations were consolidated into the operations of The Albany Herald. The Company continues to own the real estate holdings associated with the above mentioned valuation adjustment. The Company does not anticipate any further decreases in value for either of these assets. No comparable expense was incurred in 1997.

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

Income tax expense (benefit). Income tax expense for the year ended December 31, 1998 primarily reflects the provision of approximately $28.3 million of deferred income taxes recognized in conjunction with the exchange of WALB.

Net income (loss) available to common stockholders. Net income available to common stockholders of the Company was $40.3 million for the year ended December 31, 1998, as compared with a net loss available to common stockholders of $2.8 million for the same period of the prior year, reflecting the $44.3 million gain net of related tax provisions on the exchange of WALB.

Interest Rate Risk

Based on the Company's floating rate debt outstanding at December 31, 1999, a 100 basis point increase in market rates would increase interest expense and decrease income before income taxes by approximately $1.8 million. The amount was determined by calculating the effect of the hypothetical interest rate on the Company's floating rate debt.

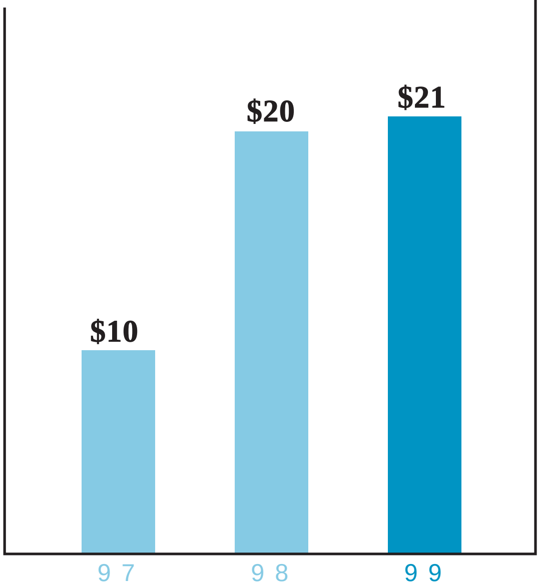
The fair market value of long-term fixed interest rate debt is also subject to interest rate risk. Generally, the fair market value of fixed interest rate debt will increase as interest rates fall and decrease as interest rates rise. The estimated fair value of the Company's total long-term fixed rate debt at December 31, 1999 was

Interest Rate Risk *(continued)*

approximately $165.6 million exceeding its carrying value by approximately $5.6 million. A hypothetical 100 basis point decrease in the prevailing interest rates at December 31, 1999 would result in an increase in fair value of total long-term debt by approximately $6.2 million. Fair market values are determined from quoted market prices where available or based on estimates made by investment bankers.

Liquidity and Capital Resources

Cash Provided from Operations
(in millions)



The Company's working capital was $10.3 million and $10.2 million at December 31, 1999, and 1998, respectively. The Company's cash provided from operations was $20.8 million, $20.1 million and $9.7 million in 1999, 1998 and 1997, respectively. Management believes that current cash balances, cash flows from operations and 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.

On October 1, 1999 and in connection with the Texas Acquisitions, the Senior Credit Facility was amended to provide borrowings up to $300.0 million. Prior to the amendment, the Senior Credit Facility consisted of a $100.0 million revolving commitment (the "Revolving Commitment") and a $100.0 million term loan commitment ("Term Loan A Commitment"). The increase in committed available credit was effected by the addition of a second $100.0 million term loan commitment ("Term Loan B Commitment").

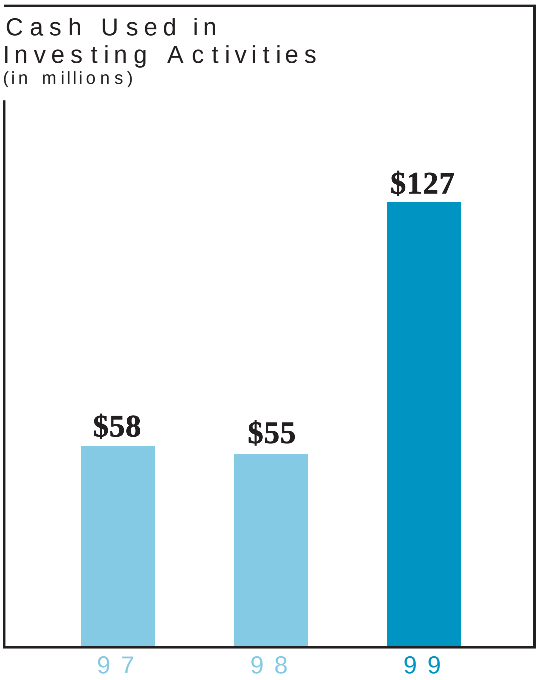
Under the Senior Credit Facility, the Company, at its option, can borrow funds at an interest rate equal to the London Interbank Offered Rate ("LIBOR") plus a premium or at an interest rate equal to the lender's prime rate ("Prime") plus a premium. As a result of the 1999 amendment, the interest rates payable by the Company for funds borrowed under the Revolving Commitment and Term Loan A Commitment increased as follows: the premium over Prime increased from a range of 0.0% to 0.5% to a range of 0.0% to 1.75% and the premium over LIBOR increased from a range of 0.75% to 2.25% to a range of 1.25% to 3.0%. Under the new Term Loan B Commitment, funds can be borrowed at Prime plus 1.75% to 2.0% and/or LIBOR plus 3.0% to 3.25%. The premium above Prime and/or LIBOR payable by the Company will be determined by the Company's operating leverage ratio that is calculated quarterly.

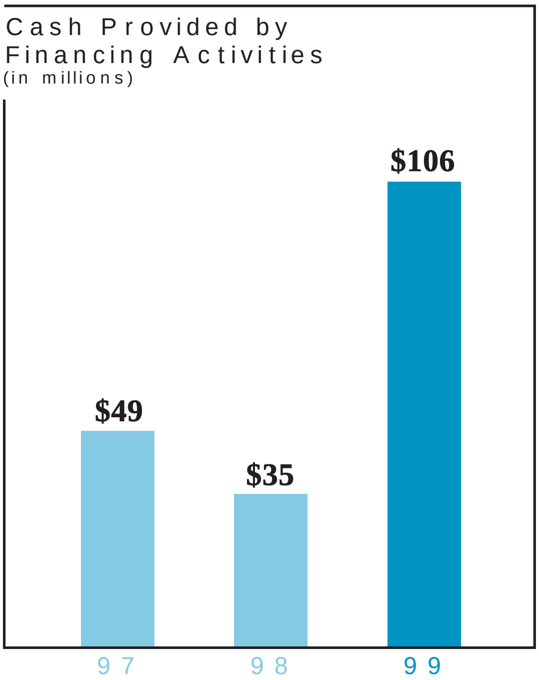
The amount borrowed by the Company and the amount available to the Company under the Senior Credit Facility at December 31, 1999, was $221.0 million and $76.5 million, respectively. The effective interest rate on such borrowings approximated 8.9%.

The Senior Credit Facility contains restrictive provisions which, among other things, limit the Company's ability to incur indebtedness, limits capital expenditures in 2000, 2001 and 2002 to not more than $15.5 million per year and requires the Company to meet certain financial ratios. The Company's 10 5/8% Senior Subordinated Notes due 2006 contain restrictive provisions similar to the provisions of the Senior Credit Facility.

The Company's cash used in investing activities was $126.8 million, $55.3 million and $57.5 million in 1999, 1998 and 1997, respectively. The amount of cash used in 1999 resulted primarily from the Texas Acquisitions and the Goshen Acquisition. The amount of cash used in 1998 resulted primarily from the acquisition of Busse partially offset by the exchange of WALB. The cash used in 1997 was primarily due to the WITN Acquisition and the GulfLink Acquisition.

Liquidity and Capital Resources (*continued*)





The Company was provided $105.8 million, $34.7 million and $49.1 million in cash by financing activities in 1999, 1998 and 1997, respectively. In 1999, the net cash provided by financing activities resulted primarily from borrowing under the Senior Credit Facility to finance the Texas Acquisitions and the Goshen Acquisition. In 1998, net cash provided by financing activities resulted primarily from borrowings on long-term debt (net of repayments) of $43.5 million partially offset by redemptions of preferred stock of $7.6 million. In 1997, the cash provided by financing activities resulted primarily from the funding obtained for the WITN and Gulflink Acquisitions partially offset by purchases of treasury stock at a cost of $3.5 million.

During 1999, 1998 and 1997, the Company purchased 20,000 shares of its Class B Common Stock, 30,750 shares of its Class A Common Stock and 259,350 shares of its Class A Common Stock, respectively, at the then prevailing market prices for such shares.

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

The Company regularly enters into program contracts for the right to broadcast television programs produced by others and program commitments for the right to broadcast programs in the future. Such programming commitments are generally made to replace expiring or canceled program rights. Payments under such contracts are made in cash or the concession of advertising spots for the program provider to resell, or a combination of both. At December 31, 1999, payments on program license liabilities due in 2000, which will be paid with cash from operations, were approximately $2.4 million.

In 1999, the Company made $11.7 million in capital expenditures, relating primarily to the broadcasting and publishing operations. In addition, the Company paid $5.0 million for program broadcast rights. The Company anticipates making $15.0 million of capital expenditures in 2000 of which at least $10.7 million

Liquidity and Capital Resources (*continued*)

is currently intended to be allocated toward implementing high definition television broadcast operations at several of the Company's television stations. The Company is currently required by the FCC to implement high definition television broadcast operations at all of its television stations by May of 2002. The Company currently intends to meet the FCC deadline. While exact costs are not presently known, the additional capital expenditures required in 2001, 2002 and thereafter, to comply with the FCC high definition television implementation deadline are expected to be material.

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, 1999, 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.

Year 2000 Issue

The problems created by systems that are unable to interpret dates accurately after December 31, 1999 is referred to as the "Year 2000 Issue." Many software programs have historically categorized the "year" in a two-digit format rather than a four-digit format. As a result, those computer programs that have time-sensitive software may recognize a date using "00" as the year 1900 rather than the year 2000.

The Company implemented a program designed to address the Year 2000 Issue. As a result of this program, the Company experienced no significant disruption in its operations from the Year 2000 Issue. The Company's total cost for this program approximated $750,000. Most of this cost was associated with the acquisition of capital assets and will be realized over the estimated useful lives of the new hardware and software. Third party consulting fees and certain other services were expensed in the period the services were rendered.

Pending Transactions

On January 28, 1999, Bull Run Corporation ("Bull Run"), a principal shareholder of the Company, acquired 301,119 shares of the outstanding common stock of Sarkes Tarzian, Inc. ("Tarzian") from the Estate of Mary Tarzian (the "Estate") for $10.0 million. The acquired shares (the "Tarzian Shares") represent 33.5% of the total outstanding common stock of Tarzian (both in terms of the number of shares of common stock outstanding and in terms of voting rights), but such investment represents 73% of the equity of Tarzian for purposes of dividends as well as distributions in the event of any liquidation, dissolution or other termination of Tarzian. A single shareholder controls a majority of the voting rights of the Tarzian common stock.

Tarzian owns and operates two television stations and four radio stations: WRCB-TV Channel 3 in Chattanooga, Tennessee, an NBC affiliate; KTVN-TV Channel 2 in Reno, Nevada, a CBS affiliate; WGCL-AM and WTTS-FM in Bloomington, Indiana; and WAJI-FM and WLDE-FM in Fort Wayne, Indiana. The Chattanooga and Reno markets rank as the 84th and the 111th largest television markets in the United States, respectively, as ranked by Nielsen.

On February 12, 1999 Tarzian filed a complaint against Bull Run and U.S. Trust Company of Florida Savings Bank as Personal Representative of the Estate in the United States District Court for the Southern District of Indiana. Tarzian claims that it had a binding and enforceable contract to purchase the Tarzian Shares from the Estate prior to Bull Run's purchase of the shares, and requested judgment providing that the contract be enforced. On May 3, 1999, the action was dismissed without prejudice against Bull Run, leaving the Estate as the sole defendant.

Pending Transactions *(continued)*

The Company has an agreement with Bull Run, whereby the Company has the option of acquiring the Tarzian Shares from Bull Run for $10.0 million plus related costs. The Company has the ability to extend the option period in 30-day increments at a fee of $66,700 per extension and has extended this option period through June 30, 2000. In connection with the option agreement, the Company granted warrants to Bull Run to purchase up to 100,000 shares of the Company's Class B Common Stock at $13.625 per share. The warrants vest immediately upon the Company's exercise of its option to purchase the Tarzian Shares. The warrants expire 10 years following the date at which the Company exercises its option. The Company can not control when or if it would receive any cash distributions from Tarzian including dividends or other distributions on capital stock.

Cautionary Statements for Purposes of the "Safe Harbor" Provisions of the Private Securities Litigation Reform Act

This annual report contains "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. When used in this annual report, the words "believes," "expects," "anticipates," "estimates" and similar words and expressions are generally intended to identify forward-looking statements. Statements that describe the Company's future strategic plans, goals, or objectives are also forward-looking statements. Readers of this annual report are cautioned that any forward-looking statements, including those regarding the intent, belief or current expectations of the Company or management, are not guarantees of future performance, results or events and involve risks and uncertainties, and that actual results and events may differ materially from those in the forward-looking statements as a result of various factors including, but not limited to, (i) general economic conditions in the markets in which the Company operates, (ii) competitive pressures in the markets in which the Company operates, (iii) the effect of future legislation or regulatory changes on the Company's operations and (iv) other factors described from time to time in the Company's filings with the Securities and Exchange Commission. The forward-looking statements included in this annual report are made only as of March 10, 2000. The Company undertakes no obligation to update such forward-looking statements to reflect subsequent events or circumstances.

Quarterly Market Information

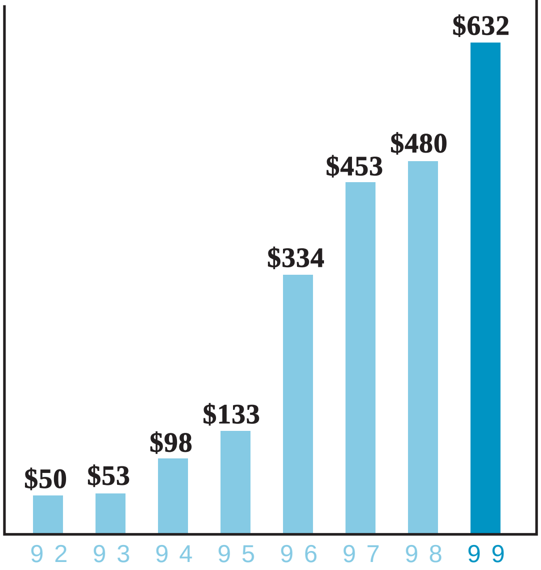
The Company's Class A and Class B Common Stock are listed on the New York Stock Exchange under the symbols "GCS" and "GCS.B," respectively. As of March 3, 2000 there were 814 shareholders of record of the Company's Class A Common Stock and 810 shareholders of record of the Company's Class B Common Stock. The number of shareholders includes shareholders of record and individual participants in security position listings as furnished to the Company. The Company has paid a dividend on its Class A Common Stock since 1967. The Company paid cash dividends of $0.02 per share for each of the four quarters in 1999 and the 4th quarter of 1998. For the first three quarters of 1998, the Company paid cash dividends of $0.013 per share. The Company's Class A and 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.

	Class A Common Stock		Class B Common Stock	
	High	**Low**	**High**	**Low**
Fiscal 1999				
1st Quarter	$19.38	$16.63	$14.81	$13.13
2nd Quarter	20.00	15.13	14.13	12.25
3rd Quarter	20.13	16.69	15.38	13.25
4th Quarter	18.75	16.94	14.75	11.63
Fiscal 1998				
1st Quarter	$19.67	$16.00	$19.33	$15.75
2nd Quarter	21.75	19.33	20.58	19.00
3rd Quarter	22.00	18.83	21.50	16.54
4th Quarter	19.00	16.63	16.63	12.50

Market Capitalization

A significant equity investment in 1992 brought a new strategic direction to the Company. With the goal of developing a major media presence in mid-size markets, Gray embarked on a determined and selective growth plan. To date, the Company has increased its properties to 13 television stations, four daily newspapers and a communications and paging business in the Southeast.

Total Market Capitalization
(includes common stock at market value, preferred stock and debt)
(in millions)



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, 1999 and 1998 and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended December 31, 1999. 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 auditing standards generally accepted in the United States. 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, 1999 and 1998, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 1999, in conformity with accounting principles generally accepted in the United States.

Ernst & Young LLP

Atlanta, Georgia
January 31, 2000

	December 31, 1999	December 31, 1998
Assets		
Current assets		
Cash and cash equivalents	$ 1,787,446	$ 1,886,723
Trade accounts receivable, less allowance for doubtful accounts of $1,008,000 and $1,212,000, respectively	30,338,425	22,859,119
Recoverable income taxes	2,053,025	1,725,535
Inventories	1,051,960	1,191,284
Current portion of program broadcast rights	3,538,441	3,226,359
Other current assets	803,410	741,007
Total current assets	39,572,707	31,630,027
Property and equipment		
Land	4,385,286	2,196,021
Buildings and improvements	16,675,110	12,812,112
Equipment	98,760,379	65,226,835
	119,820,775	80,234,968
Allowance for depreciation	(39,443,291)	(28,463,460)
	80,377,484	51,771,508
Other assets		
Deferred loan costs	9,656,586	8,235,432
Goodwill and other intangibles:		
Licenses and network affiliation agreements	448,346,122	346,433,820
Goodwill	76,218,410	28,766,950
Consulting and noncompete agreements	1,869,368	814,202
Other	2,115,847	1,322,483
	538,206,333	385,572,887
	$658,156,524	$468,974,422

	December 31, 1999	December 31, 1998
Liabilities and stockholders' equity		
Current liabilities		
Trade accounts payable (includes $0 and $880,000 payable to Bull Run Corporation, respectively)	$ 4,275,411	$ 2,540,770
Employee compensation and benefits	5,163,973	5,195,777
Accrued expenses	3,161,581	1,903,226
Accrued interest	9,233,909	5,608,134
Current portion of program broadcast obligations	3,870,893	3,070,598
Deferred revenue	3,212,814	2,632,564
Current portion of long-term debt	316,000	430,000
Total current liabilities	29,234,581	21,381,069
Long-term debt	381,385,942	270,225,255
Other long-term liabilities		
Program broadcast obligations, less current portion	428,867	735,594
Supplemental employee benefits	921,832	1,128,204
Deferred income taxes	75,389,829	44,147,642
Other acquisition related liabilities	2,607,492	4,653,788
	79,348,020	50,665,228
Commitments and contingencies		
Stockholders' equity		
Serial Preferred Stock, no par value; authorized 20,000,000 shares; issued and outstanding 1,350 shares, respectively ($13,500,000 aggregate liquidation value, respectively)	13,500,000	13,500,000
Class A Common Stock, no par value; authorized 15,000,000 shares; issued 7,961,574 shares, respectively	10,683,709	10,683,709
Class B Common Stock, no par value; authorized 15,000,000 shares; issued 8,708,820 and 5,273,046 shares, respectively	116,379,482	66,792,385
Retained earnings	37,373,183	45,737,601
	177,936,374	136,713,695
Treasury Stock at cost, Class A Common, 1,127,282 and 1,129,532 shares, respectively	(8,546,285)	(8,578,682)
Treasury Stock at cost, Class B Common, 110,365 and 135,080 shares, respectively	(1,202,108)	(1,432,143)
	168,187,981	126,702,870
	$658,156,524	$468,974,422

See accompanying notes.

	Year Ended December 31,		
	1999	1998	1997
Operating revenues			
Broadcasting (less agency commissions)	$ 97,014,737	$ 91,006,506	$ 72,300,105
Publishing	37,808,328	29,330,080	24,536,348
Paging	9,129,702	8,552,936	6,711,426
	143,952,767	128,889,522	103,547,879
Expenses			
Broadcasting	58,660,663	52,967,142	41,966,493
Publishing	28,781,501	24,197,169	19,753,387
Paging	6,550,529	5,618,421	4,051,359
Corporate and administrative	3,448,203	3,062,995	2,528,461
Depreciation	12,855,449	9,690,757	7,800,217
Amortization of intangible assets	11,595,919	8,425,821	6,718,302
	121,892,264	103,962,305	82,818,219
	22,060,503	24,927,217	20,729,660
Gain on exchange of television station (net of $780,000 paid to Bull Run Corporation in 1998)	0	72,646,041	0
Valuation adjustments of goodwill and other assets	0	(2,073,913)	0
Miscellaneous income and (expense), net	335,871	(241,522)	(30,851)
	22,396,374	95,257,823	20,698,809
Interest expense	31,021,039	25,454,476	21,861,267
Income (loss) before income taxes	(8,624,665)	69,803,347	(1,162,458)
Federal and state income taxes (benefit)	(2,309,966)	28,143,981	240,000
Net income (loss)	(6,314,699)	41,659,366	(1,402,458)
Preferred dividends	1,010,000	1,317,830	1,409,690
Net income (loss) available to common stockholders	$ (7,324,699)	$ 40,341,536	$ (2,812,148)
Average outstanding common shares-basic	12,837,912	11,922,852	11,852,546
Stock compensation awards	0	481,443	0
Average outstanding common shares-diluted	$ 12,837,912	$ 12,404,295	$ 11,852,546
Income (loss) per share available to common stockholders			
Basic	$ (0.57)	$ 3.38	$ (0.24)
Diluted	$ (0.57)	$ 3.25	$ (0.24)

See accompanying notes.

	Year Ended December 31,		
	1999	1998	1997
Operating activities			
Net income (loss)	$ (6,314,699)	$ 41,659,366	$(1,402,458)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation	12,855,449	9,690,757	7,800,217
Amortization of intangible assets	11,595,919	8,425,821	6,718,302
Amortization of deferred loan costs	1,253,277	1,097,952	1,083,303
Amortization of program broadcast rights	5,340,187	4,250,714	3,501,330
Gain on disposition of television station	0	(72,646,041)	0
Valuation adjustments of goodwill and other assets	0	2,073,913	0
Payments for program broadcast rights	(4,953,672)	(4,209,811)	(3,629,350)
Supplemental employee benefits	(206,372)	(252,611)	(196,057)
Common Stock contributed to 401(K) Plan	613,983	491,524	419,670
Deferred income taxes	(2,738,500)	26,792,795	1,283,000
(Gain) loss on asset sales	(114,063)	332,042	108,998
Changes in operating assets and liabilities:			
Trade accounts receivable	(2,865,849)	(302,905)	(369,675)
Recoverable income taxes	(327,490)	406,749	(384,597)
Inventories	255,897	(344,393)	(101,077)
Other current assets	106,829	342,674	(569,745)
Trade accounts payable	1,734,641	(797,447)	(2,825,099)
Employee compensation and benefits	(260,827)	1,283,150	(2,848,092)
Accrued expenses	1,147,105	79,644	1,279,164
Accrued interest	3,625,775	1,074,768	(325,409)
Deferred revenue	94,328	625,149	201,657
Net cash provided by operating activities	20,841,918	20,073,810	9,744,082
Investing activities			
Acquisition of television businesses	(97,821,845)	(122,455,774)	(45,644,942)
Acquisition of newspaper business	(16,869,140)	0	0
Disposition of television business	0	76,440,419	0
Purchases of property and equipment	(11,711,893)	(9,270,623)	(10,371,734)
Proceeds from asset sales	1,722,932	318,697	24,885
Deferred acquisition costs	0	0	(89,056)
Payments on purchase liabilities	(900,688)	(551,917)	(764,658)
Other	(1,199,090)	220,390	(652,907)
Net cash used in investing activities	(126,779,724)	(55,298,808)	(57,498,412)
Financing activities			
Proceeds from borrowings on long-term debt	164,200,000	90,070,000	75,350,000
Repayments of borrowings on long-term debt	(53,153,313)	(46,609,122)	(22,678,127)
Deferred loan costs	(2,674,431)	(854,235)	(463,397)
Dividends paid	(2,304,823)	(1,642,709)	(1,428,045)
Income tax benefit relating to stock plans	8,100	499,189	837,000
Proceeds from sale of Class A Common Stock	0	0	326,796
Proceeds from sale of treasury shares	20,000	1,473,249	581,834
Purchase of Class A Common Stock	0	(582,567)	(3,455,475)
Purchase of Class B Common Stock	(257,004)	0	0
Redemption of Preferred Stock	0	(7,609,384)	0
Net cash provided by financing activities	105,838,529	34,744,421	49,070,586
Increase (decrease) in cash and cash equivalents	(99,277)	(480,577)	1,316,256
Cash and cash equivalents at beginning of year	1,886,723	2,367,300	1,051,044
Cash and cash equivalents at end of year	$ 1,787,446	$ 1,886,723	$ 2,367,300

See accompanying notes.

	Preferred Stock		Class A Common Stock	
	Shares	**Amount**	**Shares**	**Amount**
Balance at December 31, 1996	2,000	$20,000,000	7,732,996	$ 7,994,235
Net Loss	0	0	0	0
Common Stock Cash Dividends				
($0.05) per share	0	0	0	0
Preferred Stock Dividends	0	0	0	0
Issuance of Class A Common Stock:				
Directors' Stock Plan	0	0	752	9,645
Non-qualified Stock Plan	0	0	44,775	317,151
Stock Award Restricted Stock Plan	0	0	183,051	1,200,000
Issuance of Class B Common Stock:				
401(k) Plan	0	0	0	0
Issuance of Series B Preferred Stock	60	600,000	0	0
Issuance of Treasury Stock:				
401(k) Plan	0	0	0	0
Non-qualified Stock Plan	0	0	0	0
Purchase of Class A Common Stock	0	0	0	0
Income tax benefits relating to stock plans	0	0	0	837,000
Balance at December 31, 1997	2,060	20,600,000	7,961,574	10,358,031
Net Income	0	0	0	0
Common Stock Cash Dividends				
($0.06) per share	0	0	0	0
Preferred Stock Dividends	0	0	0	0
Issuance of Treasury Stock:				
401(k) Plan	0	0	0	0
Directors' Stock Plan	0	0	0	0
Non-qualified Stock Plan	0	0	0	0
Purchase of Class A Common Stock	0	0	0	0
Issuance of Series B Preferred Stock	51	509,384	0	0
Purchase of Series B Preferred Stock	(761)	(7,609,384)	0	0
Income tax benefits relating to stock plans	0	0	0	325,678
Balance at December 31, 1998	1,350	13,500,000	7,961,574	10,683,709
Net Loss	0	0	0	0
Common Stock Cash Dividends				
($0.08) per share	0	0	0	0
Preferred Stock Dividends	0	0	0	0
Issuance of Treasury Stock:				
401(k) Plan	0	0	0	0
Non-qualified Stock Plan	0	0	0	0
Issuance of Class B Common Stock	0	0	0	0
Purchase of Class B Common Stock	0	0	0	0
Income tax benefits relating to stock plans	0	0	0	0
Balance at December 31, 1999	1,350	$13,500,000	7,961,574	$10,683,709

See accompanying notes.

Class B Common Stock		Retained	Class A Treasury Stock		Class B Treasury Stock		
Shares	Amount	Earnings	Shares	Amount	Shares	Amount	Total
5,250,000	$ 66,065,762	$10,543,940	(994,770)	$ (6,638,284)	(258,450)	$(2,740,137)	$ 95,225,516
0	0	(1,402,458)	0	0	0	0	(1,402,458)
0	0	(628,045)	0	0	0	0	(628,045)
0	0	(1,409,690)	0	0	0	0	(1,409,690)
0	0	0	0	0	0	0	9,645
0	0	0	0	0	0	0	317,151
0	0	0	0	0	0	0	1,200,000
23,046	282,384	0	0	0	0	0	282,384
0	0	0	0	0	0	0	600,000
0	49,658	0	0	0	8,265	87,628	137,286
0	0	(500,556)	81,238	1,082,390	0	0	581,834
0	0	0	(259,350)	(3,455,475)	0	0	(3,455,475)
0	0	0	0	0	0	0	837,000
5,273,046	66,397,804	6,603,191	(1,172,882)	(9,011,369)	(250,185)	(2,652,509)	92,295,148
0	0	41,659,366	0	0	0	0	41,659,366
0	0	(715,209)	0	0	0	0	(715,209)
0	0	(1,317,830)	0	0	0	0	(1,317,830)
0	180,821	0	0	0	29,305	310,703	491,524
0	30,652	0	0	0	84,300	893,763	924,415
0	9,597	(491,917)	74,100	1,015,254	1,500	15,900	548,834
0	0	0	(30,750)	(582,567)	0	0	(582,567)
0	0	0	0	0	0	0	509,384
0	0	0	0	0	0	0	(7,609,384)
0	173,511	0	0	0	0	0	499,189
5,273,046	66,792,385	45,737,601	(1,129,532)	(8,578,682)	(135,080)	(1,432,143)	126,702,870
0	0	(6,314,699)	0	0	0	0	(6,314,699)
0	0	(1,027,322)	0	0	0	0	(1,027,322)
0	0	(1,010,000)	0	0	0	0	(1,010,000)
0	126,944	0	0	0	44,715	487,039	613,983
0	0	(12,397)	2,250	32,397	0	0	20,000
3,435,774	49,452,053	0	0	0	0	0	49,452,053
0	0	0	0	0	(20,000)	(257,004)	(257,004)
0	8,100	0	0	0	0	0	8,100
8,708,820	$116,379,482	$37,373,183	(1,127,282)	$(8,546,285)	(110,365)	$(1,202,108)	$168,187,981

A. Summary of Significant Accounting Policies

Description of Business

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

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 revenue from three industries: broadcasting, publishing and paging. Broadcasting revenue is generated primarily from the sale of television advertising time. Publishing revenue is generated primarily from circulation and advertising revenue. Paging revenue results primarily from the sale of pagers and paging services. Advertising revenue is billed to the customer and recognized when the advertisement is aired or published. Gray bills its customers in advance for newspaper subscriptions and paging services and the related revenues are recognized over the period the service is provided on the straight-line basis. Revenue from the sale of pagers is recognized at the time of sale.

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 banks. Deposits with banks 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 $0 and $13,000 at December 31, 1999 and 1998, respectively.

Program Broadcast Rights

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

Property and Equipment

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

Deferred Loan Costs

Loan acquisition costs are amortized over the life of the applicable indebtedness. As of December 31, 1999, loan acquisition costs for the $300.0 million senior bank loan agreement (the "Senior Credit Facility") and the Senior Subordinated Notes Due 2006 (the "Senior Subordinated Notes") are amortized over lives of 6 years and 10 years, respectively.

Intangible Assets

Intangible assets are stated at cost and are amortized using the straight-line method. Goodwill, licenses and network affiliation agreements are amortized over 40 years. Non-compete agreements are amortized over the life of the specific agreement. Accumulated amortization of intangible assets resulting from business acquisitions was $31.6 million and $21.2 million as of December 31, 1999 and 1998, respectively.

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

Income Taxes

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

Capital Stock

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

Stock Based Compensation

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

Accounting for Hedging Activities

The Financial Accounting Standards Board issued SFAS No. 133, "Accounting for Derivative Instruments and for Hedging Activities" ("SFAS No. 133"). SFAS No. 133, which is effective for fiscal years beginning after June 15, 2000, will provide a comprehensive standard for the recognition and measurement of derivatives and hedging activities. SFAS No. 133 requires all derivatives to be recorded on the balance sheet at fair value and establishes "special accounting" for the different types of hedges. Though the accounting treatment and criteria for each type of hedge is unique, they all result in recognizing offsetting changes in value or cash flows of both the hedge and the hedged item in earnings in the same period. Changes in the fair value of derivatives that do not meet the hedged criteria are included in earnings in the same period of the change. The Company plans to adopt SFAS No. 133 in the fiscal year ended December 31, 2001, but has not yet completed its analysis of the impact, if any, SFAS No. 133 may have on its consolidated financial statements.

A. Summary of Significant Accounting Policies (*continued*)

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.

Fair Value of Financial Instruments

The estimated fair value of long-term debt at December 31, 1999 and 1998 exceeded book value by $5.6 million and $10.4 million, respectively. The fair value of the Preferred Stock at December 31, 1999 and 1998 approximates its carrying value at that date. Currently, the Company does not anticipate settlement of long-term debt or preferred stock at other than book value.

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

Reclassifications

Certain amounts in the accompanying consolidated financial statements have been reclassified to conform to the 1999 format.

B. Business Acquisitions and Dispositions

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

Pending Acquisitions

On January 28, 1999, Bull Run Corporation ("Bull Run"), a principal shareholder of the Company, acquired 301,119 shares of the outstanding common stock of Sarkes Tarzian, Inc. ("Tarzian") from the Estate of Mary Tarzian (the "Estate") for $10.0 million. The acquired shares (the "Tarzian Shares") represent 33.5% of the total outstanding common stock of Tarzian (both in terms of the number of shares of common stock outstanding and in terms of voting rights), but such investment represents 73% of the equity of Tarzian for purposes of dividends as well as distributions in the event of any liquidation, dissolution or other termination of Tarzian.

On February 12, 1999, Tarzian filed a complaint against Bull Run and U.S. Trust Company of Florida Savings Bank as Personal Representative of the Estate in the United States District Court for the Southern District of Indiana. Tarzian claims that it had a binding and enforceable contract to purchase the Tarzian Shares from the Estate prior to Bull Run's purchase of the shares, and requested judgment providing that the contract be enforced. On May 3, 1999, the action was dismissed without prejudice against Bull Run, leaving the Estate as the sole defendant.

Tarzian owns and operates two television stations and four radio stations: WRCB-TV Channel 3 in Chattanooga, Tennessee, an NBC affiliate; KTVN-TV Channel 2 in Reno, Nevada, a CBS affiliate; WGCL-AM and WTTS-FM in Bloomington, Indiana; and WAJI-FM and WLDE-FM in Fort Wayne, Indiana. The Chattanooga and Reno markets rank as the 84th and the 111th largest television markets in the United States, respectively, as ranked by Nielsen Media Research.

The Company has an agreement with Bull Run, whereby the Company has the option of acquiring the Tarzian Shares from Bull Run for $10.0 million plus related costs. The Company has the ability to extend the option period in 30 day increments at a fee of $66,700 per extension and has extended this option

B. Business Acquisitions and Dispositions (*continued*)

Pending Acquisitions (continued)

period through June 30, 2000. In connection with the option agreement, the Company granted warrants to Bull Run to purchase up to 100,000 shares of the Company's Class B Common Stock at $13.625 per share. The warrants vest immediately upon the Company's exercise of its option to purchase the Tarzian Shares. The warrants expire 10 years following the date at which the Company exercises its option.

1999 Acquisitions

On October 1, 1999, the Company completed its acquisition of all the outstanding capital stock of KWTX Broadcasting Company ("KWTX") and Brazos Broadcasting Company ("Brazos"), as well as the assets of KXII Broadcasters Ltd. ("KXII"). The Company acquired the capital stock of KWTX and Brazos in merger transactions with the shareholders of KWTX and Brazos receiving a combination of cash and the Company's Class B Common Stock for their shares. The Company acquired the assets of KXII in an all cash transaction. These transactions are referred to herein as the "Texas Acquisitions."

KWTX operates CBS affiliate KWTX-TV located in Waco, Texas and Brazos operates KBTX-TV, a satellite station of KWTX-TV located in Bryan, Texas, each serving the Waco-Temple-Bryan, Texas television market. KXII operates KXII-TV, which is the CBS affiliate serving Sherman, Texas and Ada, Oklahoma.

Aggregate consideration (net of cash acquired) paid in the Company's Class B Common Stock and cash was approximately $146.4 million which included a base purchase price of $139.0 million, transaction expenses of $2.8 million and certain net working capital adjustments (excluding cash) of $4.6 million. In addition to the amount paid, the Company assumed approximately $600,000 in liabilities in connection with the asset purchase of KXII. The Company funded the acquisitions by issuing 3,435,774 shares of the Company's Class B Common Stock (valued at $49.5 million) to the sellers, borrowing an additional $94.4 million under its Senior Credit Facility and using cash on hand of approximately $2.5 million. Based on the preliminary allocation of the purchase price, the excess of the purchase price over the fair value of the net tangible assets was approximately $148.9 million. The Company paid Bull Run a fee of $1.39 million for advisory services performed for the Company in connection with the Texas Acquisitions (excluding a $300,000 advisory fee in connection with the Company's Senior Credit Facility agreement detailed in Note C). This fee was paid in full as of the acquisition date and included in the fee portion of the aggregate consideration for the Texas Acquisitions described above.

On March 1, 1999, the Company acquired substantially all of the assets of The Goshen News from News Printing Company, Inc. and affiliates thereof, for aggregate cash consideration of approximately $16.7 million including a non-compete agreement (the "Goshen Acquisition"). Based on the preliminary allocation of the purchase price, the excess of the purchase price over the fair value of the net tangible assets was approximately $14.1 million. The Goshen News is currently an 18,000 circulation newspaper published Monday through Sunday and serves Goshen, Indiana and surrounding areas. The Company paid Bull Run a fee of $167,000 for services rendered in connection with the Goshen Acquisition. The Company financed the acquisition through borrowings under its Senior Credit Facility.

Unaudited pro forma operating data for the years ended December 31 , 1999 and 1998 are presented below and assumes that the Texas Acquisitions, the Goshen Acquisition and the Busse-WALB Transactions (as defined in 1998 Acquisitions and Disposition) were completed on January 1, 1998. The above described unaudited pro forma operating data excludes a pre-tax gain of approximately $72.6 million and estimated deferred income taxes of approximately $28.3 million in connection with the disposition of WALB.

This unaudited pro forma operating data does not purport to represent the Company's actual results of operations had the Texas Acquisitions, the Goshen Acquisition and the Busse-WALB Transactions been completed on January 1, 1998, and should not serve as a forecast of the Company's operating results for any future periods. The pro forma adjustments are based solely upon certain assumptions that management believes are reasonable under the circumstances at this time. Unaudited pro forma operating data for the years ended December 31, 1999 and 1998, are as follows (in thousands, except per common share data):

B. Business Acquisitions and Dispositions (*continued*)

1999 Acquisitions (continued)

	Year Ended December 31,	
	1999	1998
	(Unaudited)	
Revenues, net	$162,038	$161,544
Net loss available to common stockholders	$ (10,921)	$ (11,458)
Loss per share available to common stockholders:		
Basic and diluted	$ (0.71)	$ (0.75)

The pro forma results presented above include adjustments to reflect (i) the incurrence of interest expense to fund the respective acquisitions, (ii) depreciation and amortization of assets acquired, (iii) the elimination of the corporate expense allocation net of additional accounting and administrative expenses and (iv) the income tax effect of such pro forma adjustments. Average outstanding shares used to calculate pro forma earnings per share data for 1999 and 1998 include the 3,435,774 shares of Class B Common Stock issued in connection with the Texas Acquisitions.

1998 Acquisitions and Disposition

On July 31, 1998, the Company completed the purchase of all of the outstanding capital stock of Busse Broadcasting Corporation ("Busse"). The purchase price was approximately $126.6 million, less the accreted value of Busse's 11 5/8 % Senior Secured Notes due 2000 (the "Busse Senior Notes"). The purchase price of the capital stock consisted of the contractual purchase price of $112.0 million, associated transaction costs of $3.9 million, acquisition costs associated with the Busse Senior Notes of $5.1 million and Busse's cash and cash equivalents of $5.6 million. Immediately following the acquisition of Busse, the Company exercised its right to satisfy and discharge the Busse Senior Notes, effectively prefunding the Busse Senior Notes at the October 15, 1998 call price of 106 plus accrued interest. The amount necessary to satisfy and discharge the Busse Senior Notes was approximately $69.9 million. Based on the final allocation of the purchase price, the excess of the purchase price over the fair value of net tangible assets acquired was approximately $121.6 million.

Immediately prior to the Company's acquisition of Busse, Cosmos Broadcasting Corporation acquired the assets of WEAU-TV ("WEAU") from Busse and exchanged them for the assets of WALB-TV, Inc. ("WALB"), the Company's NBC affiliate in Albany, Georgia. In exchange for the assets of WALB, the Company received the assets of WEAU, which were valued at $66.0 million, and approximately $12.0 million in cash for a total value of $78.0 million. The Company recognized a pre-tax gain of approximately $72.6 million and estimated deferred income taxes of approximately $28.3 million in connection with the exchange of WALB. The Company funded the remaining costs of the acquisition of Busse's capital stock through borrowings under the Company's Senior Credit Facility.

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

The Company paid Bull Run a fee of approximately $2.0 million for services performed in connection with the Busse-WALB Transactions.

Unaudited pro forma operating data for the years ended December 31, 1998 and 1997 are presented below and assumes that the Busse-WALB Transactions and the 1997 Broadcasting Acquisitions (as defined in 1997 Acquisitions) were completed on January 1, 1997. The above described unaudited pro forma operating data excludes a pre-tax gain of approximately $72.6 million and estimated deferred income taxes of approximately $28.3 million in connection with the disposition of WALB.

B. Business Acquisitions and Dispositions (*continued*)

1998 Acquisitions and Disposition (continued)

This unaudited pro forma operating data does not purport to represent the Company's actual results of operations had the Busse-WALB Transactions and the 1997 Broadcasting Acquisitions been completed on January 1, 1997, and should not serve as a forecast of the Company's operating results for any future periods. The pro forma adjustments are based solely upon certain assumptions that management believes are reasonable under the circumstances at this time. Unaudited pro forma operating data for the years ended December 31, 1998 and 1997, are as follows (in thousands, except per common share data):

	Year Ended December 31,	
	1998	1997
	(Unaudited)	
Revenues, net	$133,661	$117,981
Net loss available to common stockholders	$ (4,562)	$ (6,647)
Loss per share available to common stockholders:		
Basic and diluted	$ (0.38)	$ (0.56)

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

1997 Acquisitions

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

On April 24, 1997, the Company acquired all of the issued and outstanding common stock of GulfLink Communications, Inc. ("GulfLink") of Baton Rouge, Louisiana. The GulfLink operations included nine transportable satellite uplink trucks. The purchase price of approximately $5.2 million consisted of $4.1 million cash, $127,000 in acquisition related costs, and approximately $1.0 million in liabilities which were assumed by the Company. The excess of the purchase price over the fair value of net tangible assets acquired was approximately $3.6 million. The Company funded the costs of this acquisition through its Senior Credit Facility. In connection with the purchase of the common stock of GulfLink Communications, Inc. (the "GulfLink Acquisition"), the Company paid Bull Run a fee equal to $58,000 for services performed. The WITN Acquisition and the GulfLink Acquisition are hereinafter referred to as the "1997 Broadcasting Acquisitions."

Resolution of WJHG-TV Divestiture Requirements

The FCC ordered the Company to divest itself of WJHG-TV, its NBC affiliate in Panama City, Florida, to comply with regulations governing common ownership of television stations with overlapping service areas. However, the FCC has revised its rules and it no longer requires the Company to divest itself of WJHG-TV.

C. Long-term Debt

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

	December 31,	
	1999	1998
Senior Credit Facility	$221,000	$109,500
10 5/8% Senior Subordinated Notes due 2006	160,000	160,000
Other	702	1,155
	381,702	270,655
Less current portion	(316)	(430)
	$381,386	$270,225

On October 1, 1999 and in connection with the Texas Acquisitions, the Senior Credit Facility was amended to provide borrowings up to $300.0 million. Prior to the amendment, the Senior Credit Facility consisted of a $100.0 million revolving commitment (the "Revolving Commitment") and a $100.0 million term loan commitment ("Term Loan A Commitment"). The increase in committed available credit was effected by the addition of a second $100.0 million term loan commitment ("Term Loan B Commitment").

Under the Senior Credit Facility, the Company, at its option, can borrow funds at an interest rate equal to the London Interbank Offered Rate ("LIBOR") plus a premium or at an interest rate equal to the lender's prime rate ("Prime") plus a premium. As a result of the amendment, the interest rates payable by the Company for funds borrowed under the Revolving Commitment and Term Loan A Commitment increased as follows: the premium over Prime increased from a range of 0.0% to 0.5% to a range of 0.0% to 1.75% and the premium over LIBOR increased from a range of 0.75% to 2.25% to a range of 1.25% to 3.0%. Under the new Term Loan B Commitment, funds can be borrowed at Prime plus 1.75% to 2.0% and/or LIBOR plus 3.0% to 3.25%. The premium above Prime and/or LIBOR payable by the Company will be determined by the Company's operating leverage ratio that is calculated quarterly.

In connection with the amendment to the Senior Credit Facility, the Company paid approximately $2.6 million in additional financing costs. Included in these financing costs is a $300,000 fee that the Company paid to Bull Run for advisory services performed in connection with arranging the $100.0 million Term Loan B Commitment.

At December 31, 1999, the Company had approximately $221.0 million borrowed under the Senior Credit Facility with approximately $76.5 million available under the agreement. Also as of December 31, 1999, the Company was incurring interest at a rate of Prime plus 1.125% and/or LIBOR plus 2.375% for funds borrowed under the Revolving Commitment and the Term Loan A Commitment. For funds borrowed under the Term Loan B Commitment, the Company was incurring interest at Prime plus 2.0% and/or LIBOR plus 3.25%. The effective interest rate on the Senior Credit Facility at December 31, 1999 and 1998 was 8.9% and 7.1%, respectively. The Company is charged a commitment fee on the excess of the aggregate average daily available credit limit less the amount outstanding. At December 31, 1999, the commitment fee was 0.50% per annum.

The maturity schedule for the Revolving Commitment and the Term Loan A Commitment did not change as a result of the amendment to the Senior Credit Facility. As of December 31, 1999, the Company had $23.5 million borrowed under the Revolving Commitment and the $100.0 million credit limit will automatically reduce as follows: 10% in 2000, 15% in 2001, 15% in 2002, 20% in 2003, 25% in 2004 and 15% in 2005. As of December 31, 1999, the Company had $97.5 million borrowed under the Term Loan A Commitment. The principal amount outstanding under the Term Loan A Commitment became fixed, and no further borrowings can be made thereunder, on December 30, 1999 and must be paid as follows: $10.0 million in 2000, $10.0 million in 2001, $17.5 million in 2002, $17.5 million in 2003, $21.2 million in 2004 and $21.3 million in 2005. The principal amount outstanding under the newly established Term Loan B Commitment will become fixed, and no further borrowings can be made thereunder, on March 30, 2001 and must be paid as follows: 1.0% in 2001, 1.0% in 2002, 1.0% in 2003, 1.0% in 2004 and 96.0% in 2005.

C. Long-term Debt *(continued)*

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

On September 20, 1996, the Company sold $160.0 million principal amount of the Company's Senior Subordinated Notes. 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 redeemable, in whole or in part, at the Company's option after October 1, 2001. If the Senior Subordinated Notes are redeemed during the twelve-month period beginning on October 1 of the years indicated below, they will be redeemed at the redemption prices set forth below, plus accrued and unpaid interest to the date fixed for redemption.

Year	Percentage of the Principal Amount Outstanding
2001	105.3125%
2002	103.5410%
2003	101.7710%
2004 and thereafter	100.0000%

The Senior Subordinated Notes are jointly and severally guaranteed (the "Subsidiary Guarantees") by all of the Company's subsidiaries (the "Subsidiary Guarantors"). The obligations of the Subsidiary Guarantors under the Subsidiary Guarantees is subordinated, to the same extent as the obligations of the Company in respect of the Senior Subordinated Notes, to the prior payment in full of all existing and future senior debt of the Subsidiary Guarantors (which will include any guarantee issued by such Subsidiary Guarantors of any senior debt).

The Company is a holding company with no material independent assets or operations, other than its investment in its subsidiaries. The aggregate assets, liabilities, earnings and equity of the Subsidiary Guarantors are substantially equivalent to the assets, liabilities, earnings and equity of the Company on a consolidated basis. The Subsidiary Guarantors are, directly or indirectly, wholly owned subsidiaries of the Company and the Subsidiary Guarantees are full, unconditional and joint and several. All of the current and future direct and indirect subsidiaries of the Company will be guarantors of the Senior Subordinated Notes. Accordingly, separate financial statements and other disclosures of each of the Subsidiary Guarantors are not presented because management has determined that they are not material to investors. The Senior Credit Facility is secured by substantially all of the Company's existing and hereafter acquired assets.

The Company has entered into an interest rate swap agreement to modify the interest characteristics of a portion of its outstanding debt. The agreement involves the exchange of an amount based on a variable interest rate for an amount based on a fixed interest rate over the life of the agreement without an exchange of the notional amount upon which the payments are based. The Company specifically designates this interest rate swap as a hedge of debt instruments and recognizes interest differentials as adjustments to interest expense in the period they occur. The differential to be paid or received as interest rates change is accrued and recognized as an adjustment of interest expense related to the debt (the accrual accounting method). The related amount payable to, or receivable from, counter-parties is included in other liabilities or assets. The fair value of the swap agreements is not recognized in the financial statements. If, in the future, an interest rate swap agreement were terminated, any resulting gain or loss would be deferred and amortized to interest expense over the remaining life of the hedged debt instrument. In the event of early extinguishment of a designated debt obligation, any realized or unrealized gain or loss from the swap would be recognized in income coincident with the extinguishment.

The interest rate swap agreement converts $40.0 million of the Company's floating rate debt under the Senior Credit Facility to a fixed rate basis at a rate of 6.155%. The interest rate swap agreement was effective on October 6, 1999 and will terminate on October 6, 2001. However, the bank providing the interest rate swap agreement may at its option extend the termination date to October 6, 2002.

C. Long-term Debt (*continued*)

Aggregate minimum principal maturities on long-term debt as of December 31, 1999, were as follows (in thousands):

Year	Minimum Principal Maturities
2000	$ 316
2001	200
2002	3,062
2003	38,567
2004	47,307
Thereafter	292,250
	$381,702

The Company made interest payments of approximately $26.1 million, $22.9 million, and $21.3 million during 1999, 1998 and 1997, respectively.

D. Supplemental Employee Benefits and Other Agreements

The Company has entered into supplemental retirement benefit and other agreements with certain key employees. These benefits are to be paid primarily in equal monthly amounts over the employees' life for a period not to exceed 15 years after retirement. The Company charges against operations amounts sufficient to fund the present value of the estimated lifetime supplemental benefit over each employee's anticipated remaining period of employment.

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

	Year Ended December 31,		
	1999	1998	1997
Beginning liability	$1,443	$1,526	$3,158
Net expense	136	119	161
Payments	(178)	(202)	(1,793)
Ending liability	1,401	1,443	1,526
Less current portion	(480)	(315)	(365)
	$ 921	$1,128	$1,161

E. Stockholders' Equity

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

The Series A Preferred stock includes detachable warrants issued to Bull Run to purchase 731,250 shares of Class B Common Stock for $11.92 per share. Of these warrants 450,000 vested upon issuance, with the remaining warrants vesting in five equal annual installments commencing January 3, 1997, providing the Series A Preferred Stock remains outstanding. The Series A Preferred Stock is issued to Bull Run. 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.

E. Stockholders' Equity (*continued*)

The Series B Preferred Stock includes warrants to purchase an aggregate of 750,000 shares of Class A Common Stock at an exercise price of $16.00 per share. Of these warrants 450,000 vested upon issuance, with the remaining warrants vesting in five equal annual installments commencing on September 24, 1997. The shares of Series B Preferred Stock were issued to Bull Run and to J. Mack Robinson, Chairman of the Board of Bull Run and President and Chief Executive Officer of the Company, and certain of his affiliates. The Company obtained a written opinion from an investment banker as to the fairness of the terms of the sale of such Series B Preferred Stock with warrants. The holders of the Series B Preferred Stock will receive dividends at an annual rate of $600 per share, except the Company at its option may pay these dividends in cash or in additional shares. The liquidation or redemption price of the Series B Preferred Stock is $10,000 per share. In August 1998 and September 1997, the Company issued 50.9 shares and 60.0 shares of Series B Preferred Stock, respectively, as payment of dividends to the holders of its then outstanding Series B Preferred Stock. During 1998, the Company redeemed 760.9 shares of Series B Preferred Stock at a cost of $7.6 million. During 1999, the Company has not issued any shares of Series B Preferred Stock as dividends nor have any of the shares of Series B Preferred Stock been redeemed.

The Company is authorized by its Board of Directors to purchase up to two million shares of the Company's Class A or Class B Common Stock to either be retired or reissued in connection with the Company's benefit plans, including the Capital Accumulation Plan and the Incentive Plan. During 1999, 1998 and 1997, the Company purchased 20,000 shares of its Class B Common Stock, 30,750 shares of its Class A Common Stock and 259,350 shares of its Class A Common Stock, respectively, under this authorization. The 1999, 1998 and 1997 treasury shares were purchased at prevailing market prices with an average effective price of $12.85, $18.95 and $13.33 per share, respectively, and were funded from the Company's operating cash flow.

F. Long-term Incentive Plan and Stock Purchase Plan

The Company has elected to follow Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25") and related Interpretations in accounting for its employee stock options because, as discussed below, the alternative fair value accounting provided for under SFAS No. 123, "Accounting for Stock-Based Compensation" ("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 the grant, no compensation expense is recognized.

The Company has a long-term incentive plan (the "Incentive Plan") that was amended by the Company's shareholders during 1999. The amendment increased the aggregate number of shares of the Company's common stock subject to awards under the Incentive Plan to 1.9 million from 900,000. As a result of this amendment, the Incentive Plan has 300,000 shares of the Company's Class A Common Stock and 1.6 million shares of the Company's Class B Common Stock reserved for grants to key personnel for (i) incentive stock options, (ii) non-qualified stock options, (iii) stock appreciation rights, (iv) restricted stock 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, 1999, have been granted at a price which approximates fair market value on the date of the grant. On December 11, 1998, the Company repriced certain Class B Common Stock grants made under the Incentive Plan, at a price which approximated the market price of the Class B Common Stock on that day.

The Company also has a Stock Purchase Plan which grants outside directors up to 7,500 shares of the Company's Class B 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.

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

F. Long-term Incentive Plan and Stock Purchase Plan (*continued*)

options granted subsequent to December 31, 1994 under the fair value method of SFAS No. 123. The fair value for these options was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions for 1999, 1998 and 1997, respectively: risk-free interest rates of 6.04%, 4.57% and 5.82%; dividend yields of 0.63%, 0.55% and 0.32%; volatility factors of the expected market price of the Company's Class A or Class B Common Stock of 0.27, 0.28 and 0.28; and a weighted-average expected life of the options of 4.0, 4.0 and 4.5 years.

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

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

	Year Ended December 31,		
	1999	1998	1997
Pro forma income (loss) available to common stockholders	$(8,329)	$39,523	$(3,174)
Pro forma income (loss) per common share:			
Basic	$ (0.65)	$ 3.31	$ (0.27)
Diluted	$ (0.65)	$ 3.20	$ (0.27)

A summary of the Company's stock option activity for Class A Common Stock, and related information for the years ended December 31, 1999, 1998, and 1997 is as follows (in thousands, except weighted average data):

	Year Ended December 31,					
	1999		1998		1997	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Stock options outstanding –						
beginning of year	36	$13.71	92	$ 7.43	297	$ 8.74
Options granted	0		19	17.81	0	
Options exercised	(2)	8.89	(74)	7.08	(127)	7.17
Options forfeited	0		(1)	8.89	0	
Options expired	0		0		(78)	12.83
Stock options outstanding – end of year	34	$14.04	36	$13.71	92	$ 7.43
Exercisable at end of year	14	$ 8.89	16	$ 8.89	92	$ 7.43
Weighted-average fair value of options granted during the year				$ 5.59		

Exercise prices for Class A Common Stock options outstanding as of December 31, 1999, ranged from $8.89 to $17.81 for the Incentive Plan. The weighted-average remaining contractual life of the Class A Common Stock options outstanding for the Incentive Plan is 2.4 years.

F. Long-term Incentive Plan and Stock Purchase Plan (*continued*)

A summary of the Company's stock option activity for Class B Common Stock, and related information for the years ended December 31, 1999, 1998, and 1997 is as follows (in thousands, except weighted average data):

	Year Ended December 31,					
	1999		1998		1997	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Stock options outstanding –						
beginning of year	659	$14.36	630	$15.80	102	$10.58
Options granted	241	12.85	589	14.43	528	16.80
Options exercised	0		(86)	11.05	0	
Options forfeited	(18)	14.41	(474)	16.95	0	
Options expired	(62)	16.13	0		0	
Stock options outstanding – end of year	820	$13.78	659	$14.36	630	$15.80
Exercisable at end of year	449	$14.20	84	$14.65	79	$10.58
Weighted-average fair value of options granted during the year		$ 3.67		$ 3.95		$ 5.40

Exercise prices for Class B Common Stock options outstanding as of December 31, 1999, ranged from $10.58 to $14.50 for the Incentive Plan and $12.75 to $14.00 for the Stock Purchase Plan. The weighted-average remaining contractual life of the Class B Common Stock options outstanding for the Incentive Plan and Stock Purchase Plan is 3.4 and 0.6 years, respectively.

G. Income Taxes

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

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

	Year Ended December 31,		
	1999	1998	1997
Current			
Federal	$ 6	$ 414	$(1,620)
State and local	423	937	577
Deferred	(2,739)	26,793	1,283
	$(2,310)	$28,144	$ 240

The total provision for income taxes for 1998 included a deferred tax charge of $28.3 million which related to the exchange of WALB's assets for the assets of WEAU. For income tax purposes, the gain on the exchange of WALB qualified for deferred capital gains treatment under the "like-kind exchange" provision of Section 1031 of the Internal Revenue Code of 1986.

G. Income Taxes *(continued)*

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

	December 31,	
	1999	1998
Deferred tax liabilities:		
Net book value of property and equipment	$13,036	$ 6,597
Goodwill and other intangibles	75,487	45,546
Other	122	122
Total deferred tax liabilities	88,645	52,265
Deferred tax assets:		
Liability under supplemental retirement plan	517	528
Allowance for doubtful accounts	383	465
Difference in basis of assets held for sale	1,106	1,106
Federal operating loss carryforwards	9,251	3,825
State and local operating loss carryforwards	2,959	2,534
Other	242	457
Total deferred tax assets	14,458	8,915
Valuation allowance for deferred tax assets	(1,203)	(798)
Net deferred tax assets	13,255	8,117
Deferred tax liabilities, net	$75,390	$44,148

Approximately $32.4 million in federal operating loss carryforwards will expire by the year ended December 31, 2019. Additionally, the Company has approximately $82.9 million in state operating loss carryforwards.

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

	Year Ended December 31,		
	1999	1998	1997
Statutory rate applied to income (loss)	$(2,932)	$24,431	$ (395)
State and local taxes, net of federal tax benefits	296	3,472	572
Other items, net	326	241	63
	$(2,310)	$28,144	$ 240

The Company made income tax payments of approximately $800,000, $1.5 million and $275,000 during 1999, 1998 and 1997, respectively. At December 31, 1999 and 1998, the Company had current recoverable income taxes of approximately $2.1 million and $1.7 million, respectively.

H. Retirement Plans

Pension Plan

The Company has a retirement plan covering substantially all full-time employees. Retirement benefits are based on years of service and the employees' highest average compensation for five consecutive years during the last ten years of employment. The Company's funding policy is to contribute annually the minimum amount deductible for federal income tax purposes.

H. Retirement Plans *(continued)*

Pension Plan (continued)

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

	December 31, 1999	1998
Change in benefit obligation		
Benefit obligation at beginning of year	$8,322	$7,053
Service cost	750	616
Interest cost	529	496
Actuarial (gains) losses	(203)	203
Change in benefit obligation due to change in discount rate	0	303
Benefits paid	(447)	(349)
Benefit obligation at end of year	$8,951	$8,322
Change in plan assets		
Fair value of plan assets at beginning of year	$7,407	$6,926
Actual return on plan assets	516	618
Company contributions	583	212
Benefits paid	(447)	(349)
Fair value of plan assets at end of year	$8,059	$7,407
Components of accrued benefit costs		
Underfunded status of the plan	$ (891)	$ (915)
Unrecognized net actuarial loss	94	297
Unrecognized net transition amount	(134)	(188)
Unrecognized prior service cost	(3)	(3)
Accrued benefit cost	$ (934)	$ (809)
Weighted-average assumptions as of December 31		
Discount rate	6.8%	6.8%
Expected long-term rate of return on plan assets	6.8%	6.8%
Estimated rate of increase in compensation levels	5.0%	5.0%

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

	Year Ended December 31, 1999	1998	1997
Components of net periodic pension cost			
Service cost	$ 750	$ 616	$ 429
Interest cost	529	496	443
Expected return on plan assets	(516)	(475)	(433)
Amortization of prior service cost	(1)	(1)	(1)
Amortization of transition (asset) or obligation	(54)	(54)	(54)
Pension cost	$ 708	$ 582	$ 384

Capital Accumulation Plan

The Gray Communications Systems, Inc. Capital Accumulation Plan (the "Capital Accumulation Plan") provides additional retirement benefits for substantially all employees. The Capital Accumulation Plan is intended to meet the requirements of section 401(k) of the Internal Revenue Code of 1986.

The Capital Accumulation Plan allows an investment option in the Company's Class B Common Stock and allows for the Company's percentage match to be made by a contribution of the Company's Class B Common Stock. The Company reserved 300,000 shares of the Company's Class B Common Stock for issuance under the Capital Accumulation Plan.

H. Retirement Plans (*continued*)

Capital Accumulation Plan (continued)

Employee contributions to the Capital Accumulation Plan, not to exceed 6% of the employees' gross pay, are matched by Company contributions. Since 1997, the Company's percentage match has been made by a contribution of the Company's Class B Common Stock. The Company's percentage match amount is declared by the Company's Board of Directors before the beginning of each plan year. The Company's percentage match was 50% for the three years ended December 31, 1999. The Company contributions vest, based upon each employee's number of years of service, over a period not to exceed five years.

Company matching contributions aggregating $613,983, $491,524 and $419,670 were charged to expense for 1999, 1998 and 1997, respectively, for the issuance of 44,715, 29,305 and 31,311 shares of Class B Common Stock, respectively.

I. Commitments and Contingencies

The Company has various operating lease commitments for equipment, land and office space. The Company also has commitments for various television film exhibition rights and for high definition television ("HDTV") equipment. The license periods for the film exhibition rights had not yet commenced nor had the HDTV equipment been delivered as of December 31, 1999. Rent expense resulting from operating leases for the years ended December 31, 1999, 1998 and 1997 were $1.8 million, $1.8 million and $1.4 million, respectively. Future minimum payments under operating leases with initial or remaining noncancelable lease terms in excess of one year, obligations under film exhibition rights for which the license period had not yet commenced and commitments for HDTV equipment are as follows (in thousands):

Year	HDTV Equipment	Lease	Film	Total
2000	$ 0	$1,094	$ 2,382	$ 3,476
2001	1,218	827	4,618	6,663
2002	0	523	3,977	4,500
2003	0	329	2,468	2,797
2004	0	178	2,389	2,567
Thereafter	0	1,302	1,690	2,992
	$1,218	$4,253	$17,524	$22,995

The Company has also acquired certain collegiate broadcast rights for sporting events through a five-year marketing agreement commencing April 1, 2000. The Company's annual obligation will be determined, in part, by the number of events broadcast under the agreement; however, the Company's obligation will not exceed $2.2 million annually.

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.

J. Information on Business Segments

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

	Year Ended December 31,		
	1999	1998	1997
		(in thousands)	
Operating revenues:			
Broadcasting	$ 97,015	$ 91,007	$ 72,300
Publishing	37,808	29,330	24,536
Paging	9,130	8,553	6,712
	$143,953	$128,890	$103,548
Operating income:			
Broadcasting (1)	$ 15,763	$ 21,113	$ 17,509
Publishing	5,792	2,867	2,206
Paging	505	947	1,015
Total operating income (1)	22,060	24,927	20,730
Gain on exchange of television station	0	72,646	0
Valuation adjustment of goodwill and other assets	0	(2,074)	0
Miscellaneous income and (expense), net	336	(242)	(31)
Interest expense	(31,021)	(25,454)	(21,861)
Income (loss) before income taxes	$ (8,625)	$ 69,803	$ (1,162)

Operating income is total operating revenue less operating expenses, excluding gain on exchange of television station, valuation adjustment of goodwill and other assets, miscellaneous income and expense (net) and interest. Corporate and administrative expenses are allocated to operating income based on net segment revenues.

	Year Ended December 31,		
	1999	1998	1997
		(in thousands)	
Depreciation and amortization expense:			
Broadcasting	$ 20,199	$ 14,713	$ 11,024
Publishing	2,302	1,554	1,973
Paging	1,848	1,773	1,480
	24,349	18,040	14,477
Corporate	102	77	42
Total depreciation and amortization expense	$ 24,451	$ 18,117	$ 14,519
Media cash flow:			
Broadcasting	$ 39,207	$ 38,446	$ 30,519
Publishing	9,130	5,214	4,856
Paging	2,607	2,964	2,686
	$ 50,944	$ 46,624	$ 38,061

J. Information on Business Segments *(continued)*

	Year Ended December 31,		
	1999	1998	1997
		(in thousands)	
Media cash flow reconciliation:			
Operating income (1)	$ 22,060	$ 24,927	$ 20,730
Add:			
Amortzation of program license rights	5,340	4,251	3,501
Depreciation and amortization	24,451	18,117	14,519
Corporate overhead	3,448	3,063	2,528
Non-cash compensation and contribution to 401(k) Plan, paid in Common Stock	599	476	412
Less:			
Payments for program license liabilities	(4,954)	(4,210)	(3,629)
	$ 50,944	$ 46,624	$ 38,061
Capital expenditures:			
Broadcasting	$ 9,152	$ 6,718	$ 5,000
Publishing	967	934	4,235
Paging	1,029	1,461	975
	11,148	9,113	10,210
Corporate	564	158	162
Total capital expenditures	$ 11,712	$ 9,271	$ 10,372

	December 31,		
	1999	1998	1997
		(in thousands)	
Identifiable assets:			
Broadcasting	$584,694	$410,039	$287,254
Publishing	34,584	17,196	19,818
Paging	23,822	25,563	23,950
	643,100	452,798	331,022
Corporate	15,057	16,176	14,029
Total identifiable assets	$658,157	$468,974	$345,051

(1) Operating income excludes gain on exchange of television station of $72.6 million recognized for the exchange of WALB and valuation adjustments of goodwill and other assets of $2.1 million in 1998.

K. Selected Quarterly Financial Data (Unaudited)

	Fiscal Quarters			
	First	**Second**	**Third**	**Fourth**
	(In thousands, except for per share data)			
Year Ended December 31, 1999				
Operating revenues	$31,392	$35,029	$33,530	$44,002
Operating income	4,333	5,661	4,290	7,776
Net income (loss)	(1,560)	(1,080)	(1,968)	(1,707)
Net income (loss) available to common stockholders	(1,813)	(1,333)	(2,220)	(1,959)
Basic income (loss) per share	(0.15)	(0.11)	(0.19)	(0.13)
Diluted income (loss) per share	$(0.15)	$(0.11)	$(0.19)	$(0.13)
Year Ended December 31, 1998				
Operating revenues	$27,982	$32,061	$31,845	$37,002
Operating income (1)	4,868	7,210	5,020	7,829
Net income (loss)	(1,483)	837	41,830	475
Net income (loss) available to common stockholders	(1,842)	478	41,484	221
Basic income (loss) per share	(0.16)	0.04	3.48	0.02
Diluted income (loss) per share	$ (0.16)	$ 0.04	$ 3.31	$ 0.02

(1) Operating income excludes $72.6 million gain on exchange of television station recognized from the disposition of WALB and valuation adjustments of goodwill and other assets of $2.1 million in 1998.

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 Company completed the Goshen Acquisition and the Texas Acquisitions in the first and fourth quarters, respectively, of 1999. The Company also completed the Busse-WALB Transactions in the third quarter of 1998. As a result of the exchange of WALB for WEAU in 1998, the Company recognized a pre-tax gain of approximately $72.6 million and estimated deferred income taxes of approximately $28.3 million. See *Note B* for further discussion of these transactions.

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

Corporate Address

Gray Communications Systems, Inc.
Executive Offices:
4370 Peachtree Road, NE
Atlanta, Georgia 30319
404.504.9828

Administrative Offices:
126 N. Washington Street
Albany, Georgia 31701
912.888.9390
www.graycommunications.com

Independent Auditors

Ernst & Young LLP
600 Peachtree Street, NE, Suite 2800
Atlanta, Georgia 30308-2215
404.874.8300

Trustee

For 10 5/8% Senior Subordinated Notes Due 2006
Bankers Trust Company
Four Albany Street
New York, New York 10006

Transfer Agent and Registrar

For information regarding the Company's Investor Services Program that allows participants to purchase stock directly, automatically reinvest dividends, or transfer securities and to report lost certificates, change of address, duplicate mailings or other matters concerning your shareholder account, please contact the transfer agent:

ChaseMellon Shareholder Services, L.L.C.
Overpeck Centre
85 Challenger Road
Ridgefield Park, New Jersey 07660
888.835.2869
www.chasemellon.com
e-mail: shrrelations@chasemellon.com

Form 10-K

The Company's 1999 Annual Report on Form 10-K, filed with the U.S. Securities and Exchange Commission may be accessed and requested on our web site at www.graycommunications.com or obtained without charge upon written request to:

Investor Relations
Gray Communications Systems, Inc.
P.O. Box 1867
Albany, Georgia 31702-1867
912.888.9378

William E. Mayher, III (2) (3) (4)
Chairman of the Board of Gray Communications Systems, Inc.
Retired neurosurgeon

J. Mack Robinson (3) (4)
President and Chief Executive Officer of Gray Communications Systems, Inc. and Chairman of the Executive Committee
Chairman of the Board of Bull Run Corporation, a diversified holding company and principal shareholder of Gray
Chairman of the Board and President of Delta Life Insurance Company and Delta Fire and Casualty Insurance Company
Chairman of the Board of Atlantic American Corporation, an insurance holding company
Director *emeritus* of Wachovia Corporation

Robert S. Prather, Jr. (3) (4)
Executive Vice President – Acquisitions of Gray Communications Systems, Inc.
President and Chief Executive Officer and a director of Bull Run Corporation, a diversified holding company and principal shareholder of Gray

Richard L. Boger (1) (2) (3) (4)
President and Chief Executive Officer of Export Insurance Services, Inc., an insurance organization
President and Chief Executive Officer and a director of Lex-Tek International, Inc., a computer and Internet software development company of insurance and bank applications
Chairman of the Management Personnel Committee and 1992 Long Term Incentive Plan Committee

Hilton H. Howell, Jr.
President and Chief Executive Officer of Atlantic American Corporation, an insurance holding company
Executive Vice President and General Counsel of Delta Life Insurance Company and Delta Fire and Casualty Insurance Company
Vice President and Secretary and a director of Bull Run Corporation, a diversified holding company and principal shareholder of Gray

Zell Miller (1)
Former Governor of Georgia
Chairman of the Board of Kollmann (USA) Inc.
Professor of Young Harris College
Distinguished Professor of Higher Education of the University of Georgia

Howell W. Newton (1)
President and Treasurer of Trio Manufacturing Co, a textile manufacturing company
Chairman of the Audit Committee

Hugh Norton (2) (4)
President of Norco, Inc., an insurance agency
One of the founders and directors of Community Bank of Georgia
Real estate developer in Destin, Florida

Harriet J. Robinson
Director of Atlantic American Corporation
Director of Delta Life Insurance Company and Delta Fire and Casualty Insurance Company

Committees of the Board
(1) Audit Committee
(2) 1992 Long Term Incentive Plan Committee
(3) Executive Committee
(4) Management Personnel Committee

Television

WVLT-TV
6516 Papermill Drive
Knoxville, TN 37919
423.450.8888
www.volunteertv.com

WKYT-TV
2851 Winchester Road
Lexington, KY 40509
606.299.0411
www.wkyt.com

WYMT-TV
199 Black Gold Boulevard
Hazard, KY 41701
606.436.5757
www.wymt-tv.com

KWTX-TV
6700 American Plaza
Waco, TX 76712
254.776.1330
www.kwtx.com

KBTX-TV
4141 East 29th Street
Bryan, TX 77802
979.846.7777
www.kbtx.com

KOLN/KGIN-TV
840 North 40th Street
Lincoln, NE 68503
402.467.4321
www.kolnkgin.com

WITN-TV
Highway 17 South
Washington, NC 27889
252.946.3131
www.witntv.com

WCTV-TV
County Road 12
Tallahassee, FL 32312
850.893.6666
www.wctv6.com

WRDW-TV
1301 Georgia Avenue
North Augusta, SC 29841
803.278.1212
www.wrdw.com

WEAU-TV
1907 South Hastings Way
Eau Claire, WI 54701
715.835.1313
www.weau.com

WJHG-TV
8195 Front Beach Road
Panama City, FL 32407-4820
850.234.7777
www.wjhg.com

KXII-TV
4201 Texoma Parkway
Sherman, TX 75090
903.892.8123
www.kxii.com

LYNQX COMMUNICATIONS
County Road 12
Tallahassee, FL 32312
850.893.2623
www.lynqx.com

Newspaper

GWINNETT DAILY POST
166 Buford Drive
Lawrenceville, GA 30045
770.963.9205
www.gwinnettdailypost.com

THE ALBANY HERALD
126 N. Washington Street
Albany, GA 31701
912.888.9300
www.albanyherald.com

THE GOSHEN NEWS
114 South Main Street
Goshen, IN 46526
219.533.2151
www.goshennews.com

THE ROCKDALE CITIZEN/ THE NEWTON CITIZEN
969 S. Main Street
Conyers, GA 30012
770.483.7108
www.rockdalecitizen.com
www.newtoncitizen.com

GWINNETT NEWS AND ENTERTAINMENT TELEVISION
166 Buford Drive
Lawrenceville, GA 30045
770.963.9205

Telecommunications

PORTA-PHONE PAGING
1306 Thomasville Road
Tallahassee, FL 32303
850.841.7100
www.porta-phone.com

The Albany
HERALD
KBTX-TV 3
BRYAN / COLLEGE STATION
WITN 7
Eastern Carolina
Gwinnett Daily Post
Rockdale Citizen
KOLN KGIN
10 11
VOLUNTEER TV
8
WVLT-TV
NEWS 12
WRDW AUGUSTA
WEAU 13
NEWS 10
KWTX
CENTRAL TEXAS NEWS LEADER
12
KXII-TV
Porta-Phone
Paging and Wireless Messaging
In Touch with Kentucky
KYT
WKYT TV 27
wymt tv
57 we're your mountain television
The Goshen News
NEWS CHANNEL 7
WCTV
eyewitness news

GRAY
Communications Systems, Inc.

Executive Offices:
4370 Peachtree Road, NE
Atlanta, Georgia 30319

Administrative Offices:
126 N. Washington Street
Albany, Georgia 31701

www.graycommunications.com