UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q/A

(MARK ONE)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2001.

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE TRANSITION PERIOD FROM _________ TO _________ .

COMMISSION FILE NUMBER 1-13796

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

GEORGIA	58-0285030
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

4370 PEACHTREE ROAD, NE, ATLANTA, GEORGIA 30319
(Address of principal executive offices)
(Zip code)

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

NOT APPLICABLE
(Former name, former address and former fiscal year, if changed since last report.)

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

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

CLASS A COMMON STOCK, (NO PAR VALUE)	CLASS B COMMON STOCK, (NO PAR VALUE)
6,848,467 SHARES AS OF MAY 14, 2001	8,753,967 SHARES AS OF MAY 14, 2001

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GRAY COMMUNICATIONS SYSTEMS, INC.

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

GRAY COMMUNICATIONS SYSTEMS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

	MARCH 31, 2001	DECEMBER 31, 2000
	(UNAUDITED)	
CURRENT ASSETS:		
Cash and cash equivalents	$ 1,104,586	$ 2,214,838
Trade accounts receivable, less allowance for doubtful accounts of $841,000 and $845,000, respectively	24,310,989	30,321,372
Recoverable income taxes	1,229,319	1,196,408
Inventories	1,376,488	1,472,377
Current portion of program broadcast rights	2,473,342	3,723,988
Other current assets	1,271,476	670,718
Total current assets	31,766,200	39,599,701
PROPERTY AND EQUIPMENT:		
Land	4,905,121	4,905,121
Buildings and improvements	16,676,980	16,639,424
Equipment	107,314,503	106,783,692
	128,896,604	128,328,237
Allowance for depreciation	(59,893,078)	(55,730,599)
	69,003,526	72,597,638
OTHER ASSETS:		
Deferred loan costs, net	7,817,566	8,203,055
Goodwill and other intangibles, net:		
Licenses and network affiliation agreements	433,288,033	436,255,773
Goodwill	73,488,813	73,978,230
Consulting and noncompete agreements	1,259,588	1,381,545
Other	4,551,694	4,755,793
	520,405,694	524,574,396
	$ 621,175,420	$ 636,771,735

SEE NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.

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

	MARCH 31, 2001 (UNAUDITED)	DECEMBER 31, 2000
CURRENT LIABILITIES:		
Trade accounts payable (includes $200,000 payable to Bull Run Corporation, respectively)	$ 5,067,051	$ 4,452,911
Employee compensation and benefits	5,322,579	6,630,078
Accrued expenses	1,434,505	1,631,490
Accrued interest	10,604,437	6,875,294
Current portion of program broadcast obligations	2,289,503	3,605,960
Deferred revenue	3,008,075	3,015,044
Current portion of long-term debt	166,000	200,000
SFAS 133 derivative valuation allowance	975,000	-0-
Total current liabilities	28,867,150	26,410,777
LONG-TERM DEBT	367,680,112	374,687,052
OTHER LONG-TERM LIABILITIES:		
Program broadcast obligations, less current portion	282,877	303,308
Supplemental employee benefits	596,622	525,151
Deferred income taxes	70,311,767	72,935,799
Other deferred liabilities	-0-	3,650,115
Other acquisition related liabilities	2,196,793	2,298,734
	73,388,059	79,713,107
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY:		
Serial Preferred Stock, no par value; authorized 20,000,000 shares; issued and outstanding 861 shares, respectively ($8,605,788 aggregate liquidation value, respectively)	4,636,663	4,636,663
Class A Common Stock, no par value; authorized 15,000,000 shares; issued 7,961,574 shares, respectively	20,172,959	20,172,959
Class B Common Stock, no par value; authorized 15,000,000 shares; issued 8,750,630 and 8,708,820 shares, respectively	117,107,199	116,486,600
Accumulated other comprehensive income (loss)	(117,526)	-0-
Retained earnings	17,779,522	23,273,239
	159,578,817	164,569,461
Treasury Stock at cost, Class A Common Stock, 1,113,107 shares, respectively	(8,338,718)	(8,338,718)
Treasury Stock at cost, Class B Common Stock, 0 and 24,257 shares, respectively	-0-	(269,944)
	151,240,099	155,960,799
	$ 621,175,420	$ 636,771,735

SEE NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.

GRAY COMMUNICATIONS SYSTEMS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

	THREE MONTHS ENDED MARCH 31,	
	2001	2000
OPERATING REVENUES		
Broadcasting (net of agency commissions)	$ 25,042,113	$ 26,668,453
Publishing	9,739,846	9,921,227
Paging	2,146,610	2,298,121
	36,928,569	38,887,801
EXPENSES		
Broadcasting	16,307,988	16,915,750
Publishing	7,902,104	7,664,910
Paging	1,435,663	1,504,024
Corporate and administrative	944,407	1,028,180
Depreciation and amortization	7,850,672	7,674,332
	34,440,834	34,787,196
	2,487,735	4,100,605
Miscellaneous income, net	70,933	63,301
SFAS 133 derivative valuation income (expense), net	(785,442)	-0-
	1,773,226	4,163,906
Interest expense	9,250,952	9,724,508
LOSS BEFORE INCOME TAXES	(7,477,726)	(5,560,602)
Income tax benefit	(2,450,000)	(1,712,000)
NET LOSS	(5,027,726)	(3,848,602)
Preferred dividends	154,087	252,500
NET LOSS AVAILABLE TO COMMON STOCKHOLDERS	$ (5,181,813)	$ (4,101,102)
AVERAGE OUTSTANDING COMMON SHARES:		
Basic and diluted	15,571,473	15,456,476
LOSS PER SHARE AVAILABLE TO COMMON STOCKHOLDERS:		
Basic and diluted	$ (0.33)	$ (0.27)

SEE NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.

GRAY COMMUNICATIONS SYSTEMS, INC.
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (Unaudited)

	Preferred Stock		Class A Common Stock		Class B Common Stock	
	Shares	Amount	Shares	Amount	Shares	Amount
Balance at December 31, 2000	861	$4,636,663	7,961,574	$20,172,959	8,708,820	$116,486,600
Comprehensive loss:						
Net loss for the three months ended March 31, 2001						
SFAS 133 derivative valuation income (expense), net						
Total comprehensive loss						
Common stock dividends ($.02 per share)						
Preferred stock dividends						
Issuance of treasury stock:						
401 (k) plan					3,110	100,741
Non-qualified stock plan					38,700	519,858
Balance at March 31, 2001	861	$4,636,663	7,961,574	$20,172,959	8,750,630	$117,107,199

	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Class A Treasury Stock Shares	Class A Treasury Stock Amount	Class B Treasury Stock Shares	Class B Treasury Stock Amount	Total
Balance at December 31, 2000	$ --	$ 23,273,239	(1,113,107)	$(8,338,718)	(24,257)	$(269,944)	$155,960,799
Comprehensive loss:							
Net loss for the three months ended March 31, 2001		(5,027,726)					(5,027,726)
SFAS 133 derivative valuation income (expense), net	(117,526)						(117,526)
Total comprehensive loss							(5,145,252)
Common stock dividends ($.02 per share)		(311,904)					(311,904)
Preferred stock dividends		(154,087)					(154,087)
Issuance of treasury stock:							
401 (k) plan					9,257	103,027	203,768
Non-qualified stock plan					15,000	166,917	686,775
Balance at March 31, 2001	$ (117,526)	$ 17,779,522	(1,113,107)	$(8,338,718)	--	$ --	$151,240,099

See notes to condensed consolidated financial statements.

GRAY COMMUNICATIONS SYSTEMS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	THREE MONTHS ENDED MARCH 31,	
	2001	2000
OPERATING ACTIVITIES		
Net loss	$ (5,027,726)	$ (3,848,602)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation	4,270,780	4,077,529
Amortization of intangible assets	3,579,892	3,596,803
Amortization of deferred loan costs	385,491	381,804
Amortization of program broadcast rights	1,352,940	1,309,740
Payments for program broadcast rights	(1,352,820)	(1,489,954)
Supplemental employee benefits	(82,548)	(42,932)
Common stock contributed to 401(k) Plan	203,768	192,116
SFAS 133 derivative valuation expense	785,442	-0-
Deferred income taxes	(2,552,000)	(1,776,000)
Gain on disposal of assets	(15,786)	(9,290)
Changes in operating assets and liabilities:		
Receivables, inventories and other current assets	5,472,603	4,841,182
Accounts payable and other current liabilities	2,985,849	557,563
NET CASH PROVIDED BY OPERATING ACTIVITIES	10,005,885	7,789,959
INVESTING ACTIVITIES		
Purchases of property and equipment	(4,326,075)	(2,228,979)
Payments on purchase liabilities	(101,941)	(133,653)
Other	132,035	341,638
NET CASH USED IN INVESTING ACTIVITIES	(4,295,981)	(2,020,994)
FINANCING ACTIVITIES		
Dividends paid	(465,991)	(561,893)
Proceeds from issuance of common stock	519,858	-0-
Proceeds from sale of treasury stock	166,917	48,244
Purchase of treasury stock	-0-	(142,584)
Proceeds from borrowings of long-term debt	4,950,000	5,500,000
Payments on long-term debt	(11,990,940)	(10,574,022)
NET CASH USED IN FINANCING ACTIVITIES	(6,820,156)	(5,730,255)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,110,252)	38,710
Cash and cash equivalents at beginning of period	2,214,838	1,787,446
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 1,104,586	$ 1,826,156

SEE NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.

NOTE A--BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements of Gray Communications Systems, Inc. (the "Company") have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three-month period ended March 31, 2001 are not necessarily indicative of the results that may be expected for the year ending December 31, 2001. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K/A for the year ended December 31, 2000.

Accounting for Hedging Activities

On January 1, 2001, the Company adopted SFAS No. 133, "Accounting for Derivative Instruments and for Hedging Activities," as amended ("SFAS 133"). SFAS 133 provides a comprehensive standard for the recognition and measurement of derivatives and hedging activities. SFAS 133 requires all derivatives to be recorded on the balance sheet at fair value and establishes "special accounting" for the different types of hedges. 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.

In 1999, the Company entered into an interest rate swap agreement that is designated as a hedge against fluctuations in interest expense resulting from a portion of its variable rate debt. Due to the terms of the interest rate swap agreement, it does not qualify for hedge accounting under SFAS 133. As a result of the adoption of SFAS 133 and the general decrease in market interest rates during the quarter ended March 31, 2001, the Company recognized a non-cash derivative valuation expense of $785,442 during the current quarter.

NOTE B--LONG-TERM DEBT

At March 31, 2001, the balance outstanding and the balance available under the Company's bank loan agreement were $207.5 million and $63.5 million, respectively, and the interest rate on the balance outstanding was 8.0%.

NOTE C--INFORMATION ON BUSINESS SEGMENTS

The Company operates in three business segments: broadcasting, publishing and paging. The broadcasting segment operates 13 television stations located in the southern and mid-western United States. The publishing segment operates four daily newspapers located in Georgia and Indiana. The paging operations are located in Florida, Georgia and Alabama. The following tables present certain financial information concerning the Company's three operating segments:

	THREE MONTHS ENDED MARCH 31,	
	2001	2000
	(IN THOUSANDS)	
Operating revenues:		
Broadcasting	$25,042	$26,669
Publishing	9,740	9,921
Paging	2,147	2,298
	$36,929	$38,888

NOTE C--INFORMATION ON BUSINESS SEGMENTS (CONTINUED)

	THREE MONTHS ENDED MARCH 31, 2001	2000
	(IN THOUSANDS)	
Operating income:		
Broadcasting	$ 1,369	$ 2,506
Publishing	969	1,376
Paging	150	219
Total operating income	2,488	4,101
Miscellaneous income, net	71	63
SFAS 133 derivative valuation income (expense), net	(786)	-0-
Interest expense	(9,251)	(9,725)
Loss before income taxes	$ (7,478)	$ (5,561)
Media Cash Flow:		
Broadcasting	$ 8,875	$ 9,710
Publishing	1,877	2,292
Paging	723	802
	$ 11,475	$ 12,804
Media Cash Flow reconciliation:		
Operating income	$ 2,488	$ 4,101
Add:		
Amortization of program broadcast rights	1,353	1,310
Depreciation and amortization	7,851	7,674
Corporate overhead	944	1,028
Non-cash compensation and contributions to the Company's 401(k) plan, paid in common stock	192	181
Less:		
Payments for program broadcast obligations	(1,353)	(1,490)
Media Cash Flow	$ 11,475	$ 12,804

Operating income is total operating revenues less operating expenses, excluding miscellaneous income and expense (net), SFAS 133 derivative valuation income (expense), net and interest. Corporate and administrative expenses are allocated to operating income based on net segment revenues.

"Media Cash Flow" is defined as operating income, plus depreciation and amortization (including amortization of program broadcast rights), non-cash compensation and corporate overhead, less payments for program broadcast obligations. The Company has included Media Cash Flow data because such data is commonly used as a measure of performance for media companies and is also used by investors to measure a company's ability to service debt. Media Cash Flow is not, and should not be used as, an indicator or alternative to operating income, net income or cash flow as reflected in the Company's unaudited Condensed Consolidated Financial Statements. Media Cash Flow is not a measure of financial performance under generally accepted accounting principles and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with generally accepted accounting principles.

NOTE D - RESTATEMENT OF FINANCIAL STATEMENTS

As discussed in Note E of the Notes to the Consolidated Financial Statements for the year ended December 31, 2000 as filed in the Company's annual report on Form 10K/A, during 1996 the Company issued 1,000 shares of Series A Preferred Stock with a liquidation value of $10,000 per share and detachable warrants for 731,250 shares of the Company's Class A Common Stock with a warrant exercise price of $11.92 per share for aggregate consideration of $10.0 million. Also during 1996, the Company issued 1,000 shares of Series B Preferred Stock with a liquidation value of $10,000 per share and detachable warrants for 750,000 shares of the Company's Class A Common Stock with a warrant exercise price of $16.00 per share for aggregate consideration of $10.0 million. At the time of each issuance, the Company recorded the full value of the consideration received as preferred stock on the balance sheet and did not separately allocate a part of the value to the respective detachable warrants.

During 1998, the Company redeemed 650 shares of the originally issued Series B Preferred stock at the liquidation value of $10,000 per share for an aggregate cost of $6.5 million. During 2000, the Company redeemed 500 shares of the Series A Preferred stock at the liquidation value of $10,000 per share for an aggregate cost of $5.0 million.

On October 10, 2001, the Company became aware that the initial recording of the Series A and Series B Preferred Stock in 1996 was incorrect and the consideration received for each respective issuance of preferred stock and detachable warrants should have been allocated between the respective securities.

Accordingly, the Company has reclassified $9.5 million from Serial

Preferred Stock to Class A Common Stock to reflect the value of the respective detachable warrants issued in 1996. The Company determined the relative value of each series of detachable warrants using Black-Scholes valuation methods.

When the Company redeemed certain shares of the Series B Preferred Stock during 1998 and certain shares of the Series A Preferred Stock during 2000, a non-cash constructive dividend to preferred shareholders should have been recorded. This constructive dividend recognizes that the recorded value of the respective preferred stock is less than the liquidation value at which the shares were redeemed. The Company's Consolidated Statements of Operations for the years ended December 31, 2000 and 1998 as well as the related Consolidated Statements of Stockholders' Equity for the years ended December 31, 2000, 1999 and 1998 have been restated to reflect such non-cash constructive preferred dividends. In recognizing these non-cash constructive preferred dividends, the Company's income available for common shareholders decreased by $3.4 million for the year ended December 31, 1998 and the loss available to common shareholders for the year ended December 31, 2000 increased by $2.2 million. Related earnings or loss per share available to common shareholder information has also been restated.

A comparison of the Company's consolidated financial position prior to and following the restatement follows:

Consolidated Balance Sheets ($ in thousands):

	AS OF MARCH 31, 2001		AS OF DECEMBER 31, 2000	
	AS RESTATED	AS REPORTED	AS RESTATED	AS REPORTED
Serial Preferred Stock, no par value	$ 4,637	$ 8,606	$ 4,637	$ 8,606
Class A Common Stock, no par value	$ 20,173	$ 10,684	$ 20,173	$ 10,684
Retained Earnings	$ 17,780	$ 23,300	$ 23,273	$ 28,793
Stockholders Equity	$151,240	$151,240	$155,961	$155,961

The required restatement of certain financial information related to the non-cash preferred dividends did not impact the Company's Condensed Consolidated Statement of Operations or the Condensed Consolidated Statement of Cash Flows for the three months ended March 31, 2001 or 2000. In addition, the required restatement has no impact on the Company's credit agreements.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

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 unaudited Condensed Consolidated Financial Statements and notes thereto included elsewhere herein.

Restatement of Financial Statements

As discussed in Note E of the Notes to the Consolidated Financial Statements for the year ended December 31, 2000 as filed in the Company's annual report on Form 10K/A, during 1996 the Company issued 1,000 shares of Series A Preferred Stock with a liquidation value of $10,000 per share and detachable warrants for 731,250 shares of the Company's Class A Common Stock with a warrant exercise price of $11.92 per share for aggregate consideration of $10.0 million. Also during 1996, the Company issued 1,000 shares of Series B Preferred Stock with a liquidation value of $10,000 per share and detachable warrants for 750,000 shares of the Company's Class A Common Stock with a warrant exercise price of $16.00 per share for aggregate consideration of $10.0 million. At the time of each issuance, the Company recorded the full value of the consideration received as preferred stock on the balance sheet and did not separately allocate a part of the value to the respective detachable warrants.

During 1998, the Company redeemed 650 shares of the originally issued Series B Preferred stock at the liquidation value of $10,000 per share for an aggregate cost of $6.5 million. During 2000, the Company redeemed 500 shares of the Series A Preferred stock at the liquidation value of $10,000 per share for an aggregate cost of $5.0 million.

Ernst & Young, LLP, the Company's independent auditors for each of the years ended December 31, 1996, 1997, 1998, 1999 and 2000, notified the Company on October 10, 2001 that the initial recording of the Series A and Series B Preferred Stock in 1996 was incorrect and the consideration received for each respective issuance of preferred stock and detachable warrants should have been allocated between the respective securities.

Accordingly, the Company has reclassified $9.5 million from Serial Preferred Stock to Class A Common Stock to reflect the value of the respective detachable warrants issued in 1996. The Company determined the relative value of each series of detachable warrants using Black-Scholes valuation methods.

When the Company redeemed certain shares of the Series B Preferred Stock during 1998 and certain shares of the Series A Preferred Stock during 2000, a non-cash constructive dividend to preferred shareholders should have been recorded. This constructive dividend recognizes that the recorded value of the respective preferred stock is less than the liquidation value at which the shares were redeemed. The Company's Consolidated Statements of Operations for the years ended December 31, 2000 and 1998 as well as the related Consolidated Statements of Stockholders' Equity for the years ended December 31, 2000, 1999 and 1998 have been restated to reflect such non-cash constructive preferred dividends. In recognizing these non-cash constructive preferred dividends, the Company's income available for common shareholders decreased by $3.4 million for the year ended December 31, 1998 and the loss available to common shareholders for the year ended December 31, 2000 increased by $2.2 million. Related earnings or loss per share available to common shareholder information has also been restated.

A comparison of the Company's consolidated financial position prior to and following the restatement follows:

Consolidated Balance Sheets ($ in thousands):

	AS OF MARCH 31, 2001		AS OF DECEMBER 31, 2000	
	AS RESTATED	AS REPORTED	AS RESTATED	AS REPORTED
Serial Preferred Stock, no par value	$ 4,637	$ 8,606	$ 4,637	$ 8,606
Class A Common Stock, no par value	$ 20,173	$ 10,684	$ 20,173	$ 10,684
Retained Earnings	$ 17,780	$ 23,300	$ 23,273	$ 28,793
Stockholders Equity	$151,240	$151,240	$155,961	$155,961

The required restatement of certain financial information related to the non-cash preferred dividends did not impact the Company's Condensed Consolidated Statement of Operations or the Condensed Consolidated Statement of Cash Flows for the three months ended March 31, 2001 or 2000. In addition, the required restatement has no impact on the Company's credit agreements.

General

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 and other political advocacy groups, which spending typically is heaviest during the fourth quarter.

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 to the Company's total revenues:

	THREE MONTHS ENDED MARCH 31,			
	2001		2000	
	AMOUNT	PERCENT OF TOTAL	AMOUNT	PERCENT OF TOTAL
	(DOLLARS IN THOUSANDS)			
BROADCASTING NET REVENUES:				
Local	$ 14,699	39.8%	$ 14,946	38.4%
National	6,867	18.6	7,187	18.5
Network compensation	1,726	4.7	2,017	5.2
Political	31	0.1	524	1.4
Production and other	1,719	4.6	1,995	5.1
	$ 25,042	67.8%	$ 26,669	68.6%
PUBLISHING NET REVENUES:				
Retail	$ 4,555	12.3%	$ 4,484	11.5%
Classified	2,998	8.1	3,147	8.1
Circulation	1,875	5.1	1,939	5.0
Other	312	0.9	351	0.9
	$ 9,740	26.4%	$ 9,921	25.5%
PAGING NET REVENUES:				
Paging lease, sales and service	$ 2,147	5.8%	$ 2,298	5.9%
TOTAL	$ 36,929	100.0%	$ 38,888	100.0%

THREE MONTHS ENDED MARCH 31, 2001 COMPARED TO THREE MONTHS ENDED MARCH 31, 2000

Revenues. Total revenues for the three months ended March 31, 2001 decreased $2.0 million, or 5.0%, over the same period of the prior year, to $36.9 million from $38.9 million. This decrease was primarily attributable to broadcasting and publishing operations.

Broadcasting revenues decreased $1.6 million, or 6.1%, from the same period of the prior year, to $25.0 million from $26.7 million. Local advertising revenue decreased $247,000, or 1.7%, from the same period of the prior year, to $14.7 million from $14.9 million. National advertising revenue decreased $320,000, or 4.5%, from the same period of the prior year to $6.9 million from $7.2 million. These decreases in advertising revenues are due to a general economic slowdown in the first quarter that generated lower than expected advertising sales. Network compensation decreased $291,000, or 14.4%, from the same period of the prior year, to $1.7 million from $2.0 million. Network compensation decreased primarily due to the renewal of the CBS affiliation agreements for the Company's three stations located in Texas. These affiliation agreements were renewed for a period of five years and were effective January 1, 2001. Under the renewed terms of the agreements, network compensation decreased $380,000, from the same period of the prior year, for these three stations. The decrease in network compensation at the three stations located in Texas was partially offset by increases in network compensation at several of the Company's other stations. Political advertising revenue was $31,000 for the three months ended March 31, 2001, compared to $524,000 for the same period of the prior year. The decrease in political advertising revenue was due to the lack of elections in the current year. Production and other revenue decreased $276,000, or 13.8%, in the current quarter as compared to that of the prior year, to $1.7 million from $2.0 million.

Publishing revenues decreased $181,000, or 1.8%, from the same period of the prior year, to $9.7 million from $9.9 million. This decrease was due primarily to a decrease in revenues from classified advertising and circulation revenues, partially offset by an increase in retail advertising revenue. Retail advertising revenue increased $71,000, or 1.6%, in the current quarter as compared to the same period of the prior year, to $4.6 million from $4.5 million. Three of the Company's four newspapers generated increases in retail advertising revenue, with the largest gains produced by the Company's metro Atlanta newspapers which continue to benefit from the growing retail advertising base in their areas. Classified advertising revenue decreased $149,000, or 4.7%, from the same period of the prior year, to $3.0 million from $3.1 million. This decrease was generally due to decreased help wanted and automotive advertisements due to the general economic slowdown. Circulation revenue decreased $64,000, or 3.3%, from the same period of the prior year, to $1.9 million. This decrease was due to decreased promotional spending in the period.

Paging revenues decreased $151,000, or 6.6%, from the same period of the prior year, to $2.1 million from $2.3 million. The decrease was due primarily to price competition and a reduction of units in service. The Company had approximately 88,000 pagers and 90,000 pagers in service at March 31, 2001 and 2000, respectively.

Operating expenses. Operating expenses for the three months ended March 31, 2001 decreased $346,000, or 1.0%, from the same period of the prior year, to $34.4 million from $34.8 million, due primarily to decreased broadcasting expenses, paging expenses and corporate expenses partially offset by increases in publishing expenses and depreciation expense.

Broadcasting expenses for the three months ended March 31, 2001 decreased $608,000, or 3.6%, from the same period of the prior year, to $16.3 million from $16.9 million. This decrease was the result of an expense reduction program instituted by the Company during the second and third quarters of 2000. The expense categories most affected by the program were payroll expense, promotional expense and discretionary expenses.

Publishing expenses for the three months ended March 31, 2001 increased $237,000, or 3.1%, from the same period of the prior year, to $7.9 million from $7.7 million. This increase was the result of an increase in newsprint expense, partially offset by a cost reduction program instituted by the Company during the second and third quarters of 2000. The expense categories most affected by the program were payroll expense, promotional expense and discretionary expenses. The Company also reduced expenses by closing Gwinnett News and Entertainment Television, its cable news channel in suburban Atlanta.

Paging expenses for the three months ended March 31, 2001 decreased $68,000, or 4.5%, from the same period of the prior year, to $1.4 million from $1.5 million. The decrease was due primarily to a decrease in payroll expense of $41,000.

Corporate and administrative expenses for the three months ended March 31, 2001 decreased $84,000, or 8.2%, from the same period of the prior year to $944,000 from $1.0 million. The decrease was due primarily to a decrease in payroll and benefit expense of $63,000.

Depreciation of property and equipment and amortization of intangible assets was $7.9 million for the three months ended March 31, 2001, as compared to $7.7 million for the same period of the prior year, an increase of $176,000, or 2.3%.

Miscellaneous income. Miscellaneous income for the three months ended March 31, 2001 was $71,000 compared to $63,000 of miscellaneous income for the three months ended March 31, 2000. The amounts for each period were relatively consistent which reflects the absence of any unusual activity in either period.

Derivative valuation income (expense), net. On January 1, 2001, the Company adopted SFAS No. 133, "Accounting for Derivative Instruments and for Hedging Activities," as amended ("SFAS 133"). Under SFAS 133, the Company is required to record its interest rate swap agreement at market value. It also requires the Company to record any changes in market value of the interest rate swap agreement after January 1, 2001 as income or expense in its statement of operations. As a result of the adoption of SFAS 133 and the general decrease in market interest rates during the quarter ended March 31, 2001, the Company recognized a non-cash derivative valuation expense of $785,442.

Interest expense. Interest expense decreased $474,000, or 4.9%, to $9.3 million for the three months ended March 31, 2001 from $9.7 million for the three months ended March 31, 2000. The decrease was due to lower interest rates and lower debt balances.

Income tax benefit. Income tax benefit for the three months ended March 31, 2001 and March 31, 2000 was $2.5 million and $1.7 million, respectively. The increase in the income tax benefit was directly attributable to the increase in net loss before tax in the current quarter as compared to the first quarter of the prior year.

Net loss available to common stockholders. Net loss available to common stockholders of the Company for the three months ended March 31, 2001 and March 31, 2000 was $5.2 million and $4.1 million, respectively.

OUTLOOK

With the adoption of Regulation FD by the Securities and Exchange Commission, the Company is providing this guidance to widely disseminate the Company's outlook for the second quarter and full year 2001. The guidance being provided is based on the economic and market conditions as of May 14, 2001. The Company can give no assurances as to how changes in those conditions may affect the current expectations. The Company assumes no obligation to update the guidance or expectations contained in this "Outlook" section. All matters discussed in this "Outlook" section are forward-looking and, as such, persons relying on this information should refer to the "Cautionary Statements for Purposes of the 'Safe Harbor' Provisions of the Private Securities Litigation Reform Act of 1995" section below.

Outlook for Second Quarter 2001

The Company currently anticipates that the general slowdown in the placement of broadcast and newspaper advertising will continue during the second quarter of 2001. However, based on preliminary sales information, the Company believes the relative performance of its Broadcast and Publishing businesses will improve slightly during the second quarter of 2001 compared to results for the first quarter of 2001. The Company cautions that revenue generation, especially in light of current general economic conditions, is subject to many factors beyond the control of the Company. The Company's primary revenue source is derived from broadcast advertising contracts which are generally placed with limited advance notice, are short-term and generally run for no more than a few weeks. Accordingly, the Company's ability to forecast future revenue is limited and actual results may vary substantially from current expectations.

Total revenue for the three months ending June 30, 2001 is currently expected to be approximately 3% to 5% below second quarter 2000 results. Broadcast revenue in the second quarter of 2001 is currently expected to be approximately 5% to 7% below results for the same quarter of 2000. This expected decline reflects, among other things, the reduced level of network compensation for the three television stations in Texas. In addition, during the second quarter of 2000 the Company earned $770,000 of revenue from political advertising. The Company does not anticipate earning any meaningful amount of revenue from political advertising during the second quarter of 2001. Publishing revenue is currently expected to be relatively stronger in the second quarter of 2001 and may be approximately consistent with or slightly above second quarter 2000 results. Such overall result is primarily premised on achieving currently anticipated revenue growth at the Company's two suburban Atlanta daily newspapers.

For the three months ending June 30, 2001, operating expenses, excluding depreciation and amortization, are currently expected to be relatively consistent with the results of the second quarter of 2000.

Outlook for Full Year 2001

Assuming that the general economy improves in the second half of 2001, the Company currently anticipates that the demand for broadcast and newspaper advertising will gradually improve as 2001 progresses and further believes the relative performance of its Broadcast and Publishing businesses will improve during the year as the result of such improved demand. The Company cautions that revenue generation, especially in light of current general economic conditions, is subject to many factors beyond the control of the Company. The Company's primary revenue source is derived from broadcast advertising contracts which are generally placed with limited advance notice, are short-term and generally run for no more than a few weeks. Accordingly, the Company's ability to forecast future revenue is limited and actual results may vary substantially from current expectations.

Total revenue for the year ending December 31, 2001 is currently expected to be approximately 2% to 5% below 2000 results. Broadcast revenue for 2001 is currently expected to be approximately 5% to 7% below results for 2000. This anticipated level of decline reflects among other things, the assumption that a general improvement in economic conditions will increase the demand for advertising time in the Company's television markets during the second half of this year. In addition, such expected decline reflects the reduced level of network compensation for the three television stations in Texas and the off year cycle of political advertising. During 2000 the Company earned $9.0 million of political advertising revenue while during 2001 the Company does not anticipate earning any meaningful amount of political advertising revenue. Publishing revenue is currently expected to slightly exceed 2000 results by approximately 2% to 3% with such overall growth primarily premised on achieving currently anticipated revenue growth at its two suburban Atlanta daily newspapers.

Total operating expenses, excluding depreciation and amortization, are currently expected to be relatively consistent with the results of 2000. Broadcast expenses, excluding depreciation and amortization, for 2001 may be approximately consistent with or slightly lower than the 2000 results while Publishing operating expenses for 2001 are expected to be approximately consistent with or slightly higher than the 2000 results, primarily reflecting higher newsprint prices. The generally favorable operating expense expectations reflect the Company's on-going expense reduction efforts.

LIQUIDITY AND CAPITAL RESOURCES

The Company's working capital was $2.9 million and $13.2 million at March 31, 2001 and December 31, 2000, respectively. The decrease was due to an increase in accounts payable due to digital television ("DTV") equipment purchases and accrued interest due to the timing of the interest payments on the senior subordinated notes and a decrease in accounts receivable due to the collection of seasonally elevated fourth quarter revenues.

The Company's cash provided from operations was $10.0 million and $7.8 million for the three months ended March 31, 2001 and March 31, 2000, respectively. The Company's cash used in investing activities was $4.3 million and $2.0 million for the three months ended March 31, 2001 and March 31, 2000, respectively. The increase in cash provided by operations and cash used by investing activities from 2000 to 2001 was primarily due to the purchase of DTV equipment which is not payable until 2002. As of December 31, 2000, the Company had taken delivery of $3.7 million of DTV equipment and accrued for it as a deferred liability. This liability became a current liability in the first quarter of 2001 and was reclassified as accounts payable.

In 2001, the Company made $4.3 million of capital expenditures, relating primarily to the broadcasting and publishing operations. Of this amount, $675,000 was paid in 2001. The remaining $3.7 million was accrued at March 31, 2001 and is payable in 2002. Generally, under current Federal Communications Commission ("FCC") rules each of the Company's stations must construct DTV broadcast facilities and commence operations by May 2002. The Company completed its DTV implementation at WRDW, its Augusta, Georgia station, in early 2000. As of April 23, 2001, the Company has commenced such DTV construction at KWTX and WEAU, its Waco, Texas and Eau Claire, Wisconsin stations, respectively. The Company currently intends to complete the necessary DTV construction at all of its stations by the FCC deadline. At present, the Company anticipates incurring approximately $12.5 million of DTV capital expenditures during 2001 and $10 million in 2002, including a capital lease of approximately $2.3 million for tower facilities at WVLT, its Knoxville, Tennessee station. Total capital expenditures, including DTV capital expenditures, for 2001 are anticipated to be approximately $15.0 million.

The Company's financing activities used $6.8 million and $5.7 million for the three months ended March 31, 2001 and 2000, respectively. The increase in cash used in financing activities resulted primarily from increased payments on long-term debt offset in part by the proceeds from the issuance of common stock.

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 the two. During the three months ended March 31, 2001, the Company paid $1.4 million for such program broadcast rights.

The Company and its subsidiaries file a consolidated federal income tax return and such state or local tax returns as are required. As of March 31, 2001, the Company anticipates that it will generate taxable operating losses for the foreseeable future.

At March 31, 2001, the balance outstanding and the balance available under the Company's bank loan agreement were $207.5 million and $63.5 million, respectively, and the interest rate on the balance outstanding was 8.0%. At March 31, 2000, the balance outstanding and the balance available under the Company's bank loan agreement were $216.0 million and $79.0 million, respectively, and the effective interest rate on the balance outstanding was 8.84%. The decrease in the balance outstanding and the interest rate generated a decrease in interest expense of $474,000, or 4.9%.

On March 31, 2000, the Company's Board of Directors authorized payment of a $1.0 million fee to Bull Run Corporation, a principal shareholder of the Company, for services rendered in connection with the Company's option to purchase Bull Run's equity investment in Sarkes Tarzian. Effective as of March 1, 2000, the fee was and continues to be payable in equal monthly installments of $50,000. As of March 31, 2001, the unpaid portion of this fee was $200,000 and was included in the Company's accounts payable balance.

Management believes that current cash balances, cash flows from operations and the borrowings under its bank loan agreement will be adequate to provide for the Company's capital expenditures, debt service, cash dividends and working capital requirements for the forseeable 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.

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

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

PART II. OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

None

(b) Reports on Form 8-K

None

SIGNATURES

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

GRAY COMMUNICATIONS SYSTEMS, INC.
(Registrant)

Date: October 18, 2001 By: /s/ James C. Ryan

James C. Ryan,
Vice President and Chief Financial Officer