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

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 1997.

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)

126 N. WASHINGTON ST., ALBANY, GEORGIA 31701
(Address of principal executive offices)
(Zip code)

(912) 888-9390
(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)
4,619,486 SHARES AS OF APRIL 28, 1997	3,334,193 SHARES AS OF APRIL 28, 1997

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GRAY COMMUNICATIONS SYSTEMS, INC.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	March 31, 1997	December 31, 1996
CURRENT ASSETS		
Cash and cash equivalents	$ 354,504	$ 1,051,044
Trade accounts receivable, less allowance for doubtful accounts of $1,360,000 and $1,450,000, respectively	14,680,766	17,373,839
Recoverable income taxes	4,050,387	1,747,687
Inventories	747,289	624,118
Current portion of program broadcast rights	1,987,743	2,362,742
Other current assets	885,720	379,793
	22,706,409	23,539,223
PROPERTY AND EQUIPMENT	58,039,212	53,993,742
Less allowance for depreciation	(19,934,524)	(18,209,891)
	38,104,688	35,783,851
OTHER ASSETS		
Deferred acquisition costs	69,969	-0-
Deferred loan costs (Note B)	8,880,587	9,141,262
Goodwill and other intangibles (Note B)	227,044,543	228,692,018
Other	1,882,283	1,507,488
	237,877,382	239,340,768
	$ 298,688,479	$ 298,663,842

	March 31, 1997	December 31, 1996
CURRENT LIABILITIES		
Trade accounts payable (includes $1,200,000 and $1,000,000 payable to Bull Run Corporation at March 31, 1997 and December 31, 1996, respectively)	$ 3,938,498	$ 6,043,062
Accrued expenses	7,359,687	8,212,555
Accrued interest	8,869,788	4,858,775
Current portion of program broadcast obligations	2,419,780	2,862,434
Deferred revenue	1,904,793	1,764,509
Current portion of long-term debt	140,000	140,000
	24,632,546	23,881,335
LONG-TERM DEBT (Notes B and D)	170,196,045	173,228,049
NON-CURRENT LIABILITIES	7,843,116	6,328,942
STOCKHOLDERS' EQUITY (Notes B, and C)		
Serial Preferred Stock, no par value; authorized 20,000,000 shares; issued 2,000 shares, ($20,000,000 aggregate liquidation value)	20,000,000	20,000,000
Class A Common Stock, no par value; authorized 15,000,000 shares; issued 5,281,616 and 5,155,331 shares, respectively	9,633,130	7,994,235
Class B Common Stock, no par value; authorized 15,000,000 shares; issued 3,506,493 and 3,500,000 shares, respectively	66,183,335	66,065,762
Retained earnings	9,578,728	10,543,940
	105,395,193	104,603,937
Treasury stock at cost, Class A Common Stock 663,180 shares	(6,638,284)	(6,638,284)
Treasury stock at cost, Class B Common Stock 172,300 shares	(2,740,137)	(2,740,137)
	96,016,772	95,225,516
	$ 298,688,479	$ 298,663,842

SEE NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.

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

	THREE MONTHS ENDED MARCH 31, 1997	THREE MONTHS ENDED MARCH 31, 1996
OPERATING REVENUES		
Broadcasting (net of agency commissions)	$ 15,985,297	$ 11,449,645
Publishing	5,224,854	5,576,934
Paging	1,550,376	-0-
	22,760,527	17,026,579
EXPENSES		
Broadcasting	9,694,784	7,309,865
Publishing	3,933,421	4,808,062
Paging	890,294	-0-
Corporate and administrative	633,328	775,586
Depreciation and amortization	3,271,943	1,395,254
Non-cash compensation paid in common stock	-0-	60,000
	18,423,770	14,348,767
	4,336,757	2,677,812
Miscellaneous income (expense), net	(45,763)	63,514
	4,290,994	2,741,326
Interest expense	4,975,693	2,229,115
INCOME (LOSS) BEFORE INCOME TAXES	(684,699)	512,211
Income tax expense (benefit)	(223,600)	201,000
NET INCOME (LOSS)	(461,099)	311,211
Preferred Dividends	350,000	-0-
NET INCOME (LOSS) AVAILABLE TO COMMON STOCKHOLDERS	$ (811,099)	$ 311,211
AVERAGE OUTSTANDING COMMON SHARES		
Primary	7,836,097	4,606,773
Fully Diluted	7,836,097	4,636,997
PRIMARY AND FULLY DILUTED EARNINGS (LOSS) PER COMMON SHARE:		
Net income (loss) available to common stockholders	$ (0.10)	$ 0.07

SEE NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.

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

	Preferred Stock Shares	Preferred Stock Amount	Class A Common Stock Shares	Class A Common Stock Amount	Class B Common Stock Shares	Class B Common Stock Amount	Retained Earnings
Balance at December 31, 1996	2,000	$20,000,000	5,155,331	$ 7,994,235	3,500,000	$66,065,762	$10,543,940
Net (loss) for the three months ended March 31, 1997							(461,099)
Cash Dividends ($.02 per share)							(154,113)
Preferred stock dividends							(350,000)
Income tax benefits relating to stock award				393,000			
Issuance of Class A Common Stock:							
Stock award			122,034	1,200,000			
Directors stock plan			501	9,645			
Non-qualified stock plan			3,750	36,250			
Issuance of Class B Common Stock:							
401(k) plan					6,493	117,573	
Balance at March 31, 1997	2,000	$20,000,000	5,281,616	$ 9,633,130	3,506,493	$66,183,335	$9,578,728

	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, 1996	(663,180)	$(6,638,284)	(172,300)	$(2,740,137)	$95,225,516
Net (loss) for the three months ended March 31, 1997					(461,099)
Cash Dividends ($.02 per share)					(154,113)
Preferred stock dividends					(350,000)
Income tax benefits relating to stock award					393,000
Issuance of Class A					

Common Stock:					
Stock award					1,200,000
Directors stock plan					9,645
Non-qualified stock plan					36,250
Issuance of Class B Common Stock: 401(k) plan					117,573
Balance at March 31, 1997	(663,180)	$(6,638,284)	(172,300)	$(2,740,137)	$96,016,772

SEE NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.

GRAY COMMUNICATIONS SYSTEMS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

	THREE MONTHS ENDED MARCH 31, 1997	1996
OPERATING ACTIVITIES		
Net income (loss)	$ (461,099)	$ 311,211
Items which did not use (provide) cash:		
Depreciation	1,712,147	848,427
Amortization of intangible assets	1,559,796	546,827
Amortization of deferred loan costs	269,074	-0-
Amortization of program broadcast rights	796,817	646,820
Amortization of original issue discount on subordinated note	-0-	72,222
Amortization of deferred interest rate swap liability	(13,980)	-0-
Payments for program broadcast rights	(938,009)	(661,603)
Compensation paid in Class A common stock	-0-	60,000
Supplemental employee benefits	(66,941)	(135,755)
Class A common stock contributed to 401(k) Plan	-0-	78,369
Class B common stock contributed to 401(k) Plan	117,573	-0-
Deferred income taxes	1,662,000	343,850
(Gain) on disposal of assets	-0-	(20,406)
Changes in operating assets and liabilities:		
Receivables, inventories, and other current assets	275,971	1,550,389
Accounts payable and other current liabilities	2,243,865	(521,496)
NET CASH PROVIDED BY OPERATING ACTIVITIES	7,157,214	3,118,855
INVESTING ACTIVITIES		
Acquisition of television businesses	-0-	(34,300,713)
Purchases of property and equipment	(4,206,376)	(813,588)
Deferred acquisition costs	(78,369)	(931,623)
Proceeds from asset sales	-0-	113,297
Other	(228,787)	(80,188)
NET CASH USED IN INVESTING ACTIVITIES	(4,513,532)	(36,012,815)

GRAY COMMUNICATIONS SYSTEMS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited) (continued)

	THREE MONTHS ENDED MARCH 31, 1997	1996
FINANCING ACTIVITIES		
Dividends paid to common stockholders	(154,113)	(89,076)
Dividends paid to preferred stockholders	(200,000)	-0-
Class A Common Stock transactions	45,895	388,249
Proceeds from borrowings of long-term debt	-0-	36,725,000
Payments on long-term debt	(3,032,004)	(2,608,577)
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	(3,340,222)	34,415,596
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(696,540)	1,521,636
Cash and cash equivalents at beginning of period	1,051,044	559,991
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 354,504	$2,081,627

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, 1997 are not necessarily indicative of the results that may be expected for the year ending December 31, 1997. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's annual report on Form 10-K for the year ended December 31, 1996.

In February 1997, the Financial Accounting Standards Board issued Statement No. 128, EARNINGS PER SHARE, which is required to be adopted on December 31, 1997. At that time, the Company will be required to change the method currently used to compute earnings per share and to restate all prior periods. Under the new requirements for calculating primary earnings per share, the dilutive effect of stock options will be excluded. The impact of Statement 128 on the calculation of primary and fully diluted earnings per share for the first quarter ended March 31, 1997 and March 31, 1996 would not be material.

Certain amounts in the accompanying unaudited condensed consolidated financial statements have been reclassified to conform to the 1997 format.

NOTE B--BUSINESS ACQUISITIONS

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

1996 ACQUISITIONS

On September 30, 1996, the Company purchased from First American Media, Inc. substantially all of the assets used in the operation of two CBS-affiliated television stations, WCTV-TV ("WCTV") serving Tallahassee, Florida/Thomasville, Georgia and WKXT-TV ("WKXT") in Knoxville, Tennessee, as well as those assets used in the operation of a satellite uplink and production services business and a communications and paging business (the "First American Acquisition"). Subsequent to the First American Acquisition, the Company rebranded WKXT with the call letters WVLT ("WVLT") as a component of its strategy to promote the station's upgraded news product. The purchase price of approximately $183.9 million consisted of $175.5 million cash, $1.8 million in acquisition-related costs, and the assumption of approximately $6.6 million of liabilities. Based on a preliminary allocation of the purchase price, the excess of the purchase price over the fair value of net tangible assets acquired was approximately $159.8 million. The Company's Board of Directors has agreed to pay Bull Run Corporation ("Bull Run"), a principal stockholder of the Company, a fee equal to $1.7 million for services performed in connection with the First American Acquisition. At March 31, 1997, $1.2 million of this fee remains payable and is included in accounts payable.

The First American Acquisition and the early retirement of the Company's existing bank credit facility and other senior indebtedness, were funded as follows: net proceeds of $66.1 million from the sale of 3,500,000 shares of the Company's Class B Common Stock; net proceeds of $155.2 million from the sale of $160.0 million principal amount of the Company's 10 5/8% Senior Subordinated Notes due 2006; $16.9 million of borrowings under a senior credit facility (the "Senior Credit Facility"); and $10.0 million net proceeds from the sale of 1,000 shares of the Company's Series B Preferred Stock with warrants to purchase 500,000 shares of the Company's Class A Common Stock at $24 per share. The shares of Series B Preferred Stock were issued to Bull

NOTE B--BUSINESS ACQUISITIONS (continued)

1996 ACQUISITIONS (continued)

Run and to J. Mack Robinson, Chairman of the Board of Bull Run and interim President and Chief Executive Officer of the Company, and certain of his affiliates. The Company obtained an opinion from an investment banker as to the fairness of the terms of the sale of such Series B Preferred Stock with warrants.

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

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

	WALB		WJHG	
	MARCH 31,			
	1997	1996	1997	1996
	(Unaudited)			
Current assets	$1,945	$1,667	$ 907	$ 855
Property and equipment	1,526	1,769	912	1,078
Other assets	84	76	54	3
Total assets	$3,555	$3,512	$1,873	$1,936
Current liabilities	$1,315	$1,127	$ 433	$ 428
Other liabilities	225	228	-0-	-0-
Stockholder's equity	2,015	2,157	1,440	1,508
Total liabilities and stockholder's equity	$3,555	$3,512	$1,873	$1,936

NOTE B--BUSINESS ACQUISITIONS (CONTINUED)

1996 ACQUISITIONS (CONTINUED)

Condensed unaudited income statement data for the three months ended March 31, 1997 and 1996 for WALB and WJHG are as follows (in thousands):

	WALB		WJHG	
	THREE MONTHS ENDED MARCH 31,			
	1997	1996	1997	1996
	(Unaudited)			
Broadcasting revenues	$2,347	$2,340	$1,103	$1,099
Expenses	1,093	1,242	906	949
Operating income	1,254	1,098	197	150
Other income	-0-	9	-0-	16
Income before income taxes	$1,254	$1,107	$ 197	$ 166
Net income	$ 777	$ 686	$ 122	$ 103

On January 4, 1996, the Company purchased substantially all of the assets of WRDW-TV, a CBS television affiliate serving the Augusta, Georgia television market (the "Augusta Acquisition"). The purchase price of approximately $35.9 million, excluding assumed liabilities of approximately $1.3 million, was financed primarily through long-term borrowings. The assets acquired consisted of office equipment and broadcasting operations located in North Augusta, South Carolina. Based on the allocation of the purchase price, the excess of the purchase price over the fair value of net tangible assets acquired was approximately $32.5 million. In connection with the Augusta Acquisition, the Company's Board of Directors approved the payment of a $360,000 fee to Bull Run.

Funds for the Augusta Acquisition were obtained from the modification of the Company's existing bank debt on January 4, 1996 (the "Bank Loan") to a variable rate reducing revolving credit facility (the "Old Credit Facility") and the sale to Bull Run of an 8% subordinated note due January 3, 2005 in the principal amount of $10.0 million (the "8% Note"). In connection with the sale of the 8% Note, the Company also issued warrants to Bull Run to purchase 487,500 shares of Class A Common Stock at $17.88 per share, 337,500 shares of which were vested at March 31, 1997. The remainder vests in four annual installments of 37,500 shares each. Approximately $2.6 million of the $10.0 million of proceeds from the 8% Note was allocated to the warrants and increased Class A Common Stock. The Old Credit Facility provided for a credit line up to $54.2 million. This transaction also required a modification of the interest rate of the Company's $25.0 million senior secured note with an institutional investor (the "Senior Note") from 10.08% to 10.7%.

As part of the financing arrangements for the First American Acquisition, the Old Credit Facility and the Senior Note were retired and the Company issued to Bull Run, in exchange for the 8% Note, 1,000 shares of Series A Preferred Stock. The warrants issued with the 8% Note will vest in accordance with the schedule described above provided the Series A Preferred Stock remains outstanding. The Company recorded an extraordinary charge of $5.3 million ($3.2 million after taxes or $0.56 per common share for the year ended December 31, 1996) in connection with the early retirement of the $25.0 million Senior Note and the write-off of loan acquisition costs from the early extinguishment of debt.

The Company sold the assets of KTVE Inc. (the "KTVE Sale"), its NBC-affiliated television station, in Monroe, LA/El Dorado, AR to GOCOM Television of Ouachita, L.P. on August 20, 1996. Unaudited pro forma operating data for the three months ended March 31, 1996, are presented below and assumes that the Augusta Acquisition, the First American Acquisition, and the KTVE Sale occurred on January 1, 1996. This unaudited pro forma operating data does not purport to represent the Company's actual results of operations had the Augusta Acquisition, the First American Acquisition, and the KTVE Sale occurred on January 1, 1996, and should not serve as a forecast of the Company's operating results for any future periods. The pro forma

NOTE B--BUSINESS ACQUISITIONS (Continued)

1996 ACQUISITIONS (Continued)

adjustments are based solely upon certain assumptions that management believes are reasonable under the circumstances at this time.

Unaudited pro forma operating data for the three months ended March 31, 1996 are as follows (in thousands, except per common share data):

	GRAY	KTVE SALE	FIRST AMERICAN ACQUISITION	PRO FORMA ADJUSTMENTS	ADJUSTED PRO FORMA
			(Unaudited)		
Revenues, net	$ 17,027	$ (1,066)	$ 6,547	$ -0-	$ 22,508
Net earnings (loss)	$ 311	$ (59)	$ 1,726	$ (3,385)	$ (1,407)
Earnings (loss) per share available to common stockholders	$ 0.07				$ (0.22)

The pro forma results presented above include adjustments to reflect (i) the incurrence of interest expense to fund the 1996 Acquisitions, (ii) depreciation and amortization of assets acquired, (iii) the elimination of the corporate expense allocation net of additional accounting and administrative expenses for the First American Acquisition, (iv) increased pension expense for the First American Acquisition, and (v) the income tax effect of such pro forma adjustments. Average outstanding shares used to calculate pro forma earnings per share data for 1996 include the 3,500,000 Class B Common shares issued in connection with the First American Acquisition.

RECENT AND PENDING ACQUISITIONS

In April 1997, the Company acquired GulfLink Communications, Inc. of Baton Rouge, Louisiana. The operations include nine transportable satellite uplink trucks. The purchase price was approximately $5.1 million including a cash payment and assumed liabilities and excluding expenses associated with the transaction. The Company funded the costs of this acquisition through its Senior Credit Facility.

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

NOTE C--STOCKHOLDERS' EQUITY

A portion of the funds for the Augusta Acquisition were obtained from the 8% Note, which included the issuance of detachable warrants to Bull Run to purchase 487,500 shares of Class A Common Stock at $17.88 per share, 337,500 shares of which are currently vested, with the remainder vesting in four annual installments of 37,500 shares each. Approximately $2.6 million of the $10.0 million of proceeds from the 8% Note was allocated to the warrants and increased Class A Common Stock. This allocation of the proceeds was based on an estimate of the relative fair values of the 8% Note and the warrants on the date of issuance. The Company amortized the original issue discount on a ratable basis in accordance with the original terms of the 8% Note through September 30, 1996. During the three months ended March 31, 1997 and 1996, the Company recognized approximately $-0- and $72,000, respectively in amortization costs for the $2.6 million original issue discount. In September 1996, the Company exchanged the 8% Note with Bull Run for 1,000 shares of Series A Preferred Stock yielding 8%. The warrants issued with the 8% Note will vest in accordance with their original schedule provided the Series A Preferred Stock remains outstanding.

As part of the financing for the First American Acquisition, the Company also issued 1,000 shares of Series B Preferred Stock, with warrants to purchase an aggregate of 500,000 shares of Class A Common Stock at an exercise price of $24.00 per share. Of these warrants 300,000 vested upon issuance, with the remaining warrants vesting in five equal annual installments commencing on the first anniversary of the date of issuance. The shares of Series B Preferred Stock were issued to Bull Run and to J. Mack Robinson, Chairman of the Board of Bull Run and Interim President and Chief Executive Officer of the Company, and certain of his affiliates. The Company has obtained a written opinion from an investment banking firm as to the fairness of the terms of the sale of such Series B Preferred Stock and warrants.

On September 24, 1996, the Company issued 3,500,000 shares of its Class B Common Stock at a price of $20.50 per share in a public offering. The net proceeds from this issuance of Class B Common Stock was used in the financing of the First American Acquisition.

NOTE D--LONG-TERM DEBT

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

In the quarter ended September 30, 1996, the Company recorded an extraordinary charge of $5.3 million ($3.2 million after taxes or $0.56 per share for the year ended December 31, 1996) in connection with the early retirement of the senior note and the write-off of unamortized loan acquisition costs of the senior note and the Old Credit Facility resulting from the early extinguishment of debt.

NOTE E--LONG-TERM DEBT (CONTINUED)

In September 1996, the Company entered into a $125.0 million senior credit facility (the "Senior Credit Facility") with KeyBank National Association, NationsBank, N.A. (South), CIBC, Inc., CoreStates Bank, N.A., and the Bank of New York. At March 31, 1997, the Company had approximately $9.7 million outstanding on the Senior Credit Facility and the interest rate was based on a spread over LIBOR and/or Prime, of 2.25% and 0.00%, respectively.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS OF THE COMPANY

INTRODUCTION

The following analysis of the financial condition and results of operations of the Company should be read in conjunction with the Company's unaudited Condensed Consolidated Financial Statements and notes thereto included elsewhere herein.

The Company derives its revenues from its television broadcasting, publishing and paging operations. In September 1996, the Company acquired substantially all of the assets of WKXT-TV, WCTV-TV, a satellite production and services business and a communications and paging business (the "First American Acquisition"). Subsequent to the First American Acquisition, the Company rebranded WKXT with the call letters WVLT ("WVLT") as a component of its strategy to promote the station's upgraded news product. On January 4, 1996, the Company purchased substantially all of the assets of WRDW-TV (the "Augusta Acquisition"). The First American Acquisition and the Augusta Acquisition are collectively referred to as the "1996 Broadcasting Acquisitions." As a result of these acquisitions, the proportion of the Company's revenues derived from television broadcasting has increased significantly. The Company currently has signed a letter of intent to purchase substantially all of the assets of WITN-TV, the NBC affiliate in the Greenville-Washington-New Bern, North Carolina market. On April 24, 1997, the Company purchased GulfLink Communications, Inc., which is in the transportable satellite uplink business, a business in which the Company is already engaged. The Company anticipates that the proportion of the Company's revenues derived from television broadcasting will increase further if the acquisition of WITN-TV is completed. As a result of the higher operating margins associated with the Company's television broadcasting operations, the profit contribution of these operations as a percentage of revenues, has exceeded, and is expected to continue to exceed, the profit contributions of the Company's publishing and paging operations. Set forth below, for the periods indicated, is certain information concerning the relative contributions of the Company's television broadcasting, publishing and paging operations.

	THREE MONTHS ENDED MARCH 31,			
	1997		1996	
	AMOUNT	PERCENT OF TOTAL	AMOUNT	PERCENT OF TOTAL
	(DOLLARS IN THOUSANDS)			
TELEVISION BROADCASTING				
Revenues	$ 15,985	70.2%	$ 11,450	67.2%
Operating income (1)	3,761	75.5	3,127	88.6
PUBLISHING				
Revenues	$ 5,225	23.0%	$ 5,577	32.8%
Operating income (1)	887	17.8	401	11.4
PAGING				
Revenues	$ 1,551	6.8%	$ -0-	-0-%
Operating income (1)	333	6.7	-0-	-0-

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

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

RESULTS OF OPERATIONS OF THE COMPANY (CONTINUED)

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

Most broadcast advertising contracts are short-term, and generally run only for a few weeks. Approximately 56.5% of the gross revenues of the Company's television stations for the three months ended March 31, 1997 were generated from local advertising, which is sold primarily by a station's sales staff directly to local accounts, and the remainder represented primarily national advertising, which is sold by a station's national advertising sales representative. The stations generally pay commissions to advertising agencies on local, regional and national advertising. The stations also pay commissions to the national sales representative on national advertising.

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

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

The Company's paging subscribers either own pagers, thereby paying solely for the use of the Company's paging services, or lease pagers, thereby paying a periodic charge for both the pagers and the paging services. Of the Company's pagers currently in service, approximately 75% are owned and maintained by subscribers with the remainder being leased. The terms of the lease contracts are month-to-month, three months, six months or twelve months in duration. Paging revenues are generally equally distributed throughout the year.

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

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

RESULTS OF OPERATIONS OF THE COMPANY (CONTINUED)

MEDIA CASH FLOW

The following table sets forth certain operating data for the broadcast, publishing and paging operations for the three months ended March 31, 1997 and 1996:

	THREE MONTHS ENDED MARCH 31, 1997	1996
	(IN THOUSANDS)	
Operating income	$ 4,337	$ 2,678
Add:		
Amortization of program license rights	797	647
Depreciation and amortization	3,272	1,395
Corporate overhead	633	776
Non-cash compensation and contributions to the Company's 401-k plan, paid in common stock	114	131
Less:		
Payments for program license liabilities	(938)	(662)
Media Cash Flow (1)	$ 8,215	$ 4,965

(1) Of Media Cash Flow, $6.2 million and $4.2 million was attributable to the Company's broadcasting operations during the three months ended March 31, 1997 and 1996, respectively; $1.3 million and $783,000 was attributable to the Company's publishing operations for the three months ended March 31, 1997 and 1996, respectively; and $667,000 and $-0- was attibutable to the Company's paging operations for the three months ended March 31, 1997 and 1996, respective

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

Since 1994, the Company has completed several broadcasting and publishing acquisitions and a broadcasting disposition. The financial results of the Company reflect significant increases between the three month periods ended March 31, 1997 and March 31, 1996 in substantially all line items. The principal reason for these increases was the completion by the Company of the First American Acquisition on September 30, 1996. The purchase price for the First American Acquisition was approximately $183.9 million, of which, $175.5 million was cash, $1.8 million was in the form of acquisition-related costs, and approximately $6.6 million resulted from assumed liabilities. The Company sold the assets of KTVE Inc. (the "KTVE Sale"), its NBC-affiliated television station, in Monroe, Louisiana/El Dorado, Arkansas on August 20, 1996. The sales price included $9.5 million in cash plus the amount of the accounts receivable on the date of closing (approximately $829,000).

RESULTS OF OPERATIONS OF THE COMPANY (CONTINUED)

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

The following table sets forth certain cash flow data for the Company for the months ended March 31, 1997 and 1996.

	THREE MONTHS ENDED MARCH 31,	
	1997	1996
	(in thousands)	
Cash flows provided by (used in)		
Operating activities	$ 7,157	$ 3,119
Investing activities	(4,514)	(36,013)
Financing activities	(3,340)	34,416

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,			
	1997		1996	
	AMOUNT	PERCENT OF TOTAL	AMOUNT	PERCENT OF TOTAL
	(DOLLARS IN THOUSANDS)			
BROADCASTING NET REVENUES:				
Local	$ 9,112	40.0%	$ 6,675	39.2%
National	4,765	20.9	3,089	18.1
Network compensation	1,133	5.0	867	5.1
Political	47	0.2	213	1.2
Production and other	928	4.1	606	3.6
	$ 15,985	70.2%	$11,450	67.2%
PUBLISHING NET REVENUES:				
Retail advertising	$ 2,490	10.9%	$ 2,608	15.3%
Classified	1,617	7.1	1,482	8.7
Circulation	990	4.3	1,115	6.6
Other	128	0.7	372	2.2
	$ 5,225	23.0%	$ 5,577	32.8%
PAGING NET REVENUES:				
Paging lease and service	$ 1,596	7.0%	$ -0-	-0-%
Other	(45)	(0.2)	-0-	-0-
	$ 1,551	6.8%	$ -0-	-0-%
	$ 22,761	100.0%	$17,027	100.0%

THREE MONTHS ENDED MARCH 31, 1997 COMPARED TO THREE MONTHS ENDED MARCH 31, 1996

REVENUES. Total revenues for the three months ended March 31, 1997, increased $5.7 million, or 33.7%, over the same period of the prior year, from $17.0 million to $22.8 million. This increase was attributable to the net effect of (i) increased revenues resulting from the First American Acquisition, (ii) increases in broadcasting revenues (excluding the First American Acquisition), (iii) decreased revenues resulting from the KTVE Sale and (iv) decreased publishing revenues. The First American Acquisition accounted for $6.9 million of the revenue increase.

Broadcast net revenues increased $4.5 million, or 39.6%, over the same period of the prior year, from $11.5 million to $16.0 million. The First American Acquisition, net of the effects of the KTVE Sale, accounted for $4.2 million, or 93.5%, of the broadcast net revenue increase. On a pro forma basis, assuming the First American Acquisition had been effective on January 1, 1996, broadcast net revenues for the First American Acquisition for the three months ended March 31, 1997 increased $100,000, or 2.0%, over the same period of the prior year from $5.2 million to $5.3 million. The KTVE Sale resulted in a decrease in broadcast net revenues of $1.1 million. Broadcast net revenues, excluding the First American Acquisition and the operating results of KTVE, increased $294,000, or 2.8%, over the prior year. The $294,000 increase in broadcast net revenues, excluding the First American Acquisition and the operating results of KTVE, was due primarily to increased local advertising spending and national advertising spending of $278,000 and $302,000, respectively, partially offset by decreased political advertising spending and other revenue of $156,000 and $127,000, respectively.

Publishing revenues decreased $352,000, or 6.3%, over the same period of the prior year, from $5.6 million to $5.2 million. The decrease in revenues was due primarily to an increase in classified advertising revenues of $135,000 offset by decreases in circulation, retail and other advertising revenue $125,000, $118,000 and 244,000, respectively.

Paging revenue increased $1.6 million due to the First American Acquisition. On a pro forma basis, assuming the First American Acquisition had been effective on January 1, 1996, paging revenue for the three months ended March 31, 1997 increased $212,000, or 15.8%, over the same period of the prior year from $1.3 million to $1.6 million. The increase was attributable primarily to higher sales volume generated by a reseller program implemented during 1995.

OPERATING EXPENSES. Operating expenses for the three months ended March 31, 1997 increased $4.1 million, or 28.4%, over the same period of the prior year, from $14.3 million to $18.4 million, due primarily to the First American Acquisition partially offset by the KTVE Sale and decreased expenses at the publishing operations. The First American Acquisition, net of the effects of the KTVE Sale, accounted for $3.5 million, or 86.0%, of the increase in operating expenses.

Broadcast expenses increased $2.4 million, or 32.6%, over the three months ended March 31, 1996, from $7.3 million to $9.7 million. The increase was attributable primarily to the First American Acquisition partially offset by the KTVE Sale. On a pro forma basis, assuming the First American Acquisition had been effective on January 1, 1996, broadcast expenses for the First American Acquisition for the three months ended March 31, 1997 increased $505,000, or 18.2%, over the three months ended March 31, 1996 from $2.8 million to $3.3 million. The KTVE Sale resulted in a decrease in broadcast expenses of $860,000. Broadcast expenses, excluding the results of the First American Acquisition and the KTVE Sale, remained relatively level.

Publishing expenses for the three months ended March 31, 1997, decreased $875,000 or 18.2%, from the same period of the prior year, from $4.8 million to $3.9 million. This decrease resulted primarily from a decrease in work force related costs, improved newsprint pricing, and restructuring of the advertising publications. Average newsprint costs decreased approximately 23% while newsprint consumption decreased approximately 4%.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

THREE MONTHS ENDED MARCH 31, 1997 COMPARED TO THREE MONTHS ENDED MARCH 31, 1996 (CONTINUED)

Paging expenses increased $890,000 due to the First American Acquisition. On a pro forma basis, assuming the First American Acquisition had been effective on January 1, 1996, paging expenses for the three months ended March 31, 1997 increased $47,000, or 5.6%, over the same period of the prior year from $843,000 to $890,000. The increase was attributable primarily to higher payroll costs.

Corporate and administrative expenses for the three months ended March 31, 1997, decreased $142,000 or 18.3%, over the same period of the prior year, from $776,000 to $634,000. This decrease was attributable primarily to a reduction of compensation expense at the corporate level.

Depreciation of property and equipment and amortization of intangible assets was $3.3 million for the three months ended March 31, 1997, as compared to $1.4 million for the same period of the prior year, an increase of $1.9 million or 134.6%. This increase was primarily the result of higher depreciation and amortization costs related to the First American Acquisition.

INTEREST EXPENSE. Interest expense increased $2.7 million, or 123.2%, from $2.2 million for the three months ended March 31, 1996 to $5.0 million for the three months ended March 31, 1997. This increase was attributable primarily to increased levels of debt resulting from the financing of the First American Acquisition.

NET INCOME (LOSS). Net loss available to common stockholders of the Company was $811,000 for the three months ended March 31, 1997, as compared with net income of $311,000 for the same period of the prior year, a decrease of $1.1 million.

LIQUIDITY AND CAPITAL RESOURCES

The Company's working capital deficiency was $1.9 million and $342,000 at March 31, 1997 and December 31, 1996, respectively. The Company's cash provided from operations was $7.2 million and $3.1 million for the three months ended March 31, 1997 and 1996, respectively. Management believes that current cash balances, cash flows from operations and the available funds under its Senior Credit Facility will be adequate to provide for the Company's capital expenditures, debt service, cash dividends and working capital requirements for the forseeable future. The Senior Credit Facility contains certain restrictive provisions, which, among other things, limit capital expenditures and additional indebtedness and require minimum levels of cash flows. Additionally, the effective interest rate of the Senior Credit Facility can be changed based upon the Company's maintenance of certain operating ratios as defined in the Senior Credit Facility, not to exceed the lender's prime rate plus 1.0% or LIBOR plus 3.25%. The Senior Credit Facility contains restrictive provisions similar to the provisions of the Company's 10 5/8% Senior Subordinated Notes due 2006. The amount borrowed by the Company and the amount available to the Company under the Senior Credit Facility at March 31, 1997 was $9.7 million and $115.3 million, respectively.

The Company's cash used in investing activities was $4.5 million and $36.0 million for the three months ended March 31, 1997 and 1996, respectively. The decreased usage of $31.5 million from 1996 to 1997 was primarily due to the Augusta Acquisition in 1996.

The Company used $3.3 million and was provided $34.4 million in cash by financing activities for the three months ended March 31, 1997 and 1996, respectively. The cash provided in 1996 resulted primarily from the funding obtained for the Augusta Acquisition.

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. During the three months ended March 31, 1997, the Company paid $938,000 for such program broadcast rights.

LIQUIDITY AND CAPITAL RESOURCES (CONTINUED)

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

The Company and its subsidiaries file a consolidated federal income tax return and such state or local tax returns as are required. As of March 31, 1997, the Company anticipates that it will generate taxable operating losses for the foreseeable future.

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

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

PART II. OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

11 - Statement re: Computation of Earnings Per Share

27- Financial Data Schedule

(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: May 12, 1997

By: /s/ William A. Fielder, III

William A. Fielder, III, Vice President & CFO
(Chief Financial Officer)

EXHIBIT 11

STATEMENT RE: COMPUTATION OF EARNINGS PER SHARE

	THREE MONTHS ENDED MARCH 31, 1997	THREE MONTHS ENDED MARCH 31, 1996
PRIMARY:		
Weighted average shares outstanding	7,836,097	4,443,617
Common Stock Equivalents - based on the treasury stock method using average market price	0	163,156
Totals	7,836,097	4,606,773
Net income (loss) available to common stockholders	$ (811,099)	$ 311,211
PRIMARY PER SHARE AMOUNTS:		
Net income (loss) available to common stockholders	$ (0.10)	$ 0.07
FULLY DILUTED:		
Weighted average shares outstanding	7,836,097	4,443,617
Common Stock Equivalents - based on the treasury stock method using quarter-end market price which is greater than average market price	0	193,380
Totals	7,836,097	4,636,997
Net income (loss) available to common stockholders	$ (811,099)	$ 311,211
FULLY DILUTED PER SHARE AMOUNTS:		
Net income (loss) available to common stockholders	$ (0.10)	$ 0.07

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE MARCH 31, 1997 UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF GRAY COMMUNICATIONS SYSTEMS, INC. AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

1
U.S. DOLLARS

3-MOS
DEC-31-1997
JAN-01-1997
MAR-31-1997
1
354,504
0
16,040,766
1,360,000
747,289
22,706,409
58,039,212
19,934,524
298,688,479
24,632,546
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20,000,000
66,438,044
9,578,728
298,688,479
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22,760,527
0
18,423,770
45,763
49,425
4,975,693
(684,699)
(223,600)
(461,099)
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0
0
(461,099)
(0.10)
(0.10)