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

Form 10-Q

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

For the quarterly period ended June 30, 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)
4,492,586 shares as of July 31, 1997	3,341,476 shares as of July 31, 1997

INDEX

GRAY COMMUNICATIONS SYSTEMS, INC.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	June 30, 1997	December 31, 1996
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 522,966	$ 1,051,044
Trade accounts receivable, less allowance for doubtful accounts of $1,164,000 and $1,450,000, respectively	16,700,091	17,373,839
Recoverable income taxes	4,166,287	1,747,687
Inventories	504,342	624,118
Current portion of program broadcast rights	1,504,424	2,362,742
Other current assets	946,824	379,793
Total current assets	24,344,934	23,539,223
PROPERTY AND EQUIPMENT	61,695,878	53,993,742
Less allowance for depreciation	(21,857,733)	(18,209,891)
	39,838,145	35,783,851
OTHER ASSETS		
Deferred acquisition costs (Note B)	485,303	-0-
Deferred loan costs (Note B)	8,664,593	9,141,262
Goodwill and other intangibles (Note B)	229,051,375	228,692,018
Other	1,625,317	1,507,488
	239,826,588	239,340,768
	$ 304,009,667	$ 298,663,842

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

	June 30, 1997	December 31, 1996
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Trade accounts payable (includes $1,408,000 and $1,000,000 payable to Bull Run Corporation, respectively)	$ 3,883,050	$ 6,043,062
Accrued expenses	7,361,598	8,212,555
Accrued interest	4,384,610	4,858,775
Current portion of program broadcast obligations	1,822,100	2,862,434
Deferred revenue	1,818,513	1,764,509
Current portion of long-term debt	344,826	140,000
Total current liabilities	19,614,697	23,881,335
LONG-TERM DEBT (Notes B and D)	181,281,661	173,228,049
NON-CURRENT LIABILITIES	7,808,234	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 5,299,466 and 5,155,331 shares, respectively	9,828,780	7,994,235
Class B Common Stock, no par value; authorized 15,000,000 shares; issued 3,512,104 and 3,500,000 shares, respectively	66,282,581	66,065,762
Retained earnings	9,691,910	10,543,940
	105,803,271	104,603,937
Treasury Stock at cost:		
Class A Common, 721,880 and 663,180 shares, respectively	(7,758,059)	(6,638,284)
Class B Common, 172,300 shares	(2,740,137)	(2,740,137)
	95,305,075	95,225,516
	$ 304,009,667	298,663,842

See notes to condensed consolidated financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	1997	1996	1997	1996
OPERATING REVENUES				
Broadcasting (net of agency commissions)	$ 17,782,557	$ 12,802,256	$ 33,767,854	$ 24,251,901
Publishing	6,081,748	5,684,858	11,306,602	11,261,792
Paging	1,634,609	-0-	3,184,985	-0-
	25,498,914	18,487,114	48,259,441	35,513,693
EXPENSES				
Broadcasting	9,604,608	7,108,335	19,299,392	14,418,200
Publishing	4,594,834	4,384,689	8,528,255	9,192,751
Paging	946,629	-0-	1,836,923	-0-
Corporate and administrative	740,991	795,220	1,374,319	1,570,806
Depreciation and amortization	3,488,301	1,505,470	6,760,244	2,900,724
Non-cash compensation paid in common stock	-O-	60,000	-0-	120,000
	19,375,363	13,853,714	37,799,133	28,202,481
	6,123,551	4,633,400	10,460,308	7,311,212
Miscellaneous income (expense), net	5,930	17,847	(39,833)	81,361
	6,129,481	4,651,247	10,420,475	7,392,573
Interest expense	5,081,505	2,215,763	10,057,198	4,444,878
INCOME BEFORE INCOME TAXES	1,047,976	2,435,484	363,277	2,947,695
Income tax expense	426,100	945,000	202,500	1,146,000
NET INCOME	621,876	1,490,484	160,777	1,801,695
Preferred Dividends	350,000	-0-	700,000	-0-
NET INCOME (LOSS) AVAILABLE TO COMMON STOCKHOLDERS	$ 271,876	$ 1,490,484	$ (539,223)	$ 1,801,695
AVERAGE OUTSTANDING COMMON SHARES				
Primary	8,061,241	4,707,564	7,891,432	4,656,691
Fully Diluted	8,120,606	4,750,117	7,891,432	4,693,046
EARNINGS (LOSS) PER COMMON SHARE AVAILABLE TO COMMON STOCKHOLDERS:				
Primary	$ 0.03	$ 0.32	$ (0.07)	$ 0.39
Fully Diluted	$ 0.03	$ 0.31	$ (0.07)	$ 0.38

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		Retained Earnings
	Shares	Amount	Shares	Amount	Shares	Amount	
Balance at December 31, 1996	2,000	$20,000,000	5,155,331	$ 7,994,235	3,500,000	$66,065,762	$10,543,940
Net income for the six months June 30, 1997							160,777
Common stock dividends ($.04 per share)							(312,807)
Preferred stock dividends							(700,000)
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			21,600	231,900			
Issuance of Class B Common Stock:							
401(k) plan					12,104	216,819	
Purchase of treasury stock - Class A Common							
Balance at June 30, 1997	2,000	$20,000,000	5,299,466	$ 9,828,780	3,512,104	$66,282,581	$ 9,691,910

	Class A Treasury Stock		Class B Treasury Stock		Total
	Shares	Amount	Shares	Amount	
Balance at December 31, 1996	(663,180)	$(6,638,284)	(172,300)	$(2,740,137)	$ 95,225,516
Net income for the six months June 30, 1997					160,777
Common stock dividends ($.04 per share)					(312,807)
Preferred stock dividends					(700,000)
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					231,900
Issuance of Class B Common Stock:					
401(k) plan					216,819
Purchase of treasury stock - Class A Common	(58,700)	(1,119,775)			(1,119,775)
Balance at June 30, 1997	(721,880)	$(7,758,059)	(172,300)	$(2,740,137)	$ 95,305,075

See notes to condensed consolidated financial statements.

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

	Six Months Ended June 30, 1997	Six Months Ended June 30, 1996
OPERATING ACTIVITIES		
Net income	$ 160,777	$ 1,801,695
Items which did not use (provide) cash:		
Depreciation	3,646,840	1,648,014
Amortization of intangible assets	3,113,404	1,252,710
Amortization of deferred loan costs	542,139	-0-
Amortization of program broadcast rights	1,619,198	1,279,357
Amortization of original issue discount on 8% subordinated note	-0-	144,444
Amortization of deferred interest rate swap settlement liability	(191,055)	-0-
Payments for program broadcast rights	(1,830,304)	(1,309,364)
Compensation paid in Class A Common Stock	-0-	120,000
Supplemental employee benefits	(117,749)	(203,708)
Class A common stock contributed to 401(k) Plan	-0-	139,640
Class B common stock contributed to 401(k) Plan	216,819	-0-
Deferred income taxes	2,200,000	676,059
(Gain) on disposal of assets	(5,314)	(17,968)
Changes in operating assets and liabilities:		
Receivables, inventories and other current assets	(1,203,550)	1,143,052
Accounts payable and other current liabilities	(2,691,321)	126,622
NET CASH PROVIDED BY OPERATING ACTIVITIES	5,459,884	6,800,553
INVESTING ACTIVITIES		
Acquisition of television business	-0-	(34,330,365)
Acquisition of satellite uplink business	(4,074,031)	-0-
Purchases of property and equipment	(6,757,526)	(1,317,345)
Deferred acquisition costs	(485,303)	(1,797,772)
Proceeds from asset sales	5,314	113,297
Other	(472,359)	(157,538)
NET CASH USED IN INVESTING ACTIVITIES	(11,783,905)	(37,489,723)

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

	Six Months Ended June 30,	
	1997	1996
FINANCING ACTIVITIES		
Dividends paid to common stockholders	(312,807)	(178,398)
Dividends paid to preferred stockholders	(400,000)	-0-
Class A Common Stock transactions	241,545	402,749
Proceeds from settlement of interest rate swap	-0-	215,000
Purchase of treasury stock - Class A Common	(1,119,775)	-0-
Proceeds from borrowings of long-term debt	13,500,000	36,725,000
Payments on long-term debt	(6,113,020)	(5,748,076)
NET CASH PROVIDED BY FINANCING ACTIVITIES	5,795,943	31,416,275
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(528,078)	727,105
Cash and cash equivalents at beginning of period	1,051,044	559,991
CASH AND EQUIVALENTS AT END OF PERIOD	$ 522,966	$ 1,287,096

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 six month period ended June 30, 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 by 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 second quarter and six month period ended June 30, 1997 and 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 the 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 June 30, 1997, $1.1 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 3.5 million shares of the Company's Class B Common Stock; net proceeds of $155.2 million from the sale of $160.0 million principal amount of the Company's 10 5/8% Senior Subordinated Notes due 2006; $16.9 million of borrowings under a senior credit facility (the "Senior Credit Facility"); and $10.0 million net proceeds from the sale of 1,000 shares of the Company's Series B Preferred Stock with warrants to purchase 500,000 shares of the Company's Class A Common Stock at $24 per share. The shares of Series B Preferred Stock were issued to Bull Run and to

NOTE B--BUSINESS ACQUISITIONS (continued)

1996 Acquisitions (continued)

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

In connection with the First American Acquisition, the Federal Communications Commission (the "FCC") ordered 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 would not be required. The FCC is not expected to complete its rulemaking on this subject until later in 1997. Accordingly, the Company requested and in July of 1997 received an extension of the divestiture deadline with regard to WJHG conditioned upon the outcome of the rulemaking proceedings. Also in July of 1997, the Company obtained FCC approval to transfer control of WALB to a trust with a view towards the trustee effecting i) a swap of WALB's 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, or ii) a sale of such assets. Under the trust arrangement, the Company relinquished operating control of the station to a trustee while retaining the economic risks and benefits of ownership. If the trustee is required to effect a sale of WALB, the Company would incur a significant gain and related tax liability, the payment of which could have an adverse effect on the Company's ability to acquire comparable assets without incurring additional indebtedness. The FCC has allowed up to six months for the trustee to file an application seeking the agency's approval of a swap or sale. The approval process is expected to take between two and six months.

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

	WALB		WJHG	
	June 30, 1997	December 31, 1996	June 30, 1997	December 31, 1996
	(Unaudited)			
Current assets	$ 2,076	$ 2,058	$ 1,024	$ 1,079
Property and equipment	1,444	1,579	908	981
Other assets	68	100	4	55
Total assets	$ 3,588	$ 3,737	$ 1,936	$ 2,115
Current liabilities	$ 1,855	$ 1,189	$ 489	$ 497
Other liabilities	209	242	-0-	-0-
Stockholder's equity	1,524	2,306	1,447	1,618
Total liabilities and stockholder's equity	$ 3,588	$ 3,737	$ 1,936	$ 2,115

NOTE B--BUSINESS ACQUISITIONS (continued)

1996 Acquisitions (continued)

Condensed unaudited income statement data for the three months and six months ended June 30, 1997 and 1996 for WALB is as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	1997	1996	1997	1996
	(Unaudited)			
Broadcasting revenues	$ 2,584	$ 2,759	$ 4,931	$ 5,098
Expenses	1,162	1,199	2,255	2,440
Operating income	1,422	1,560	2,676	2,658
Other income	-0-	-0-	-0-	9
Income before income taxes	$ 1,422	$ 1,560	$ 2,676	$ 2,667
Net income	$ 883	$ 968	$ 1,660	$ 1,654

Condensed unaudited income statement data for the three months and six months ended June 30, 1997 and 1996 for WJHG is as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	1997	1996	1997	1996
	(Unaudited)			
Broadcasting revenues	$ 1,338	$ 1,310	$ 2,441	$ 2,409
Expenses	934	984	1,840	1,933
Operating income	404	326	601	476
Other income	-0-	-0-	-0-	16
Income before income taxes	$ 404	$ 326	$ 601	$ 492
Net income	$ 250	$ 202	$ 372	$ 305

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 June 30, 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

NOTE B--BUSINESS ACQUISITIONS (continued)

1996 Acquisitions (continued)

(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, Louisiana/El Dorado, Arkansas to GOCOM Television of Ouachita, L.P. on August 20, 1996. Unaudited pro forma operating data for the six months ended June 30, 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 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 and six months ended June 30, 1996 are as follows (in thousands, except per common share data):

	Three Months Ended June 30, 1996				
	Gray	KTVE Sale	First American Acquisition	Pro forma Adjustments	Adjusted Pro forma
			(Unaudited)		
Revenues, net	$ 18,487	$ (1,237)	$ 7,543	$ -0-	$ 24,793
Net earnings (loss)	$ 1,490	$ (163)	$ 2,447	$ (3,217)	$ 557
Earnings per share available to common stockholders:					
Primary	$ 0.32				$ 0.03
Fully diluted	$ 0.31				$ 0.03

NOTE B--BUSINESS ACQUISITIONS (continued)

1996 Acquisitions (continued)

	Six Months Ended June 30, 1996				
	Gray	KTVE Sale	First American Acquisition	Pro forma Adjustments	Adjusted Pro forma
			(Unaudited)		
Revenues, net	$ 35,514	$ (2,303)	$ 14,089	$ -0-	$ 47,300
Net earnings (loss)	$ 1,802	$ 224	$ 4,173	$ (6,738)	$ (539)
Earnings (loss) per share available to common stockholders:					
Primary	$ 0.39				$ (0.16)
Fully diluted	$ 0.38				$ (0.16)

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 3.5 million Class B Common shares issued in connection with the First American Acquisition.

Recent and Pending Acquisitions

On April 24, 1997, the Company acquired GulfLink Communications, Inc. of Baton Rouge, Louisiana. The operations include nine transportable satellite uplink trucks. The purchase price of approximately $5.1 million included a cash payment and assumed liabilities but excluded expenses associated with the transaction. The Company funded the costs of this acquisition through its Senior Credit Facility. In connection with the purchase of the assets of GulfLink Communications, Inc., the Company will pay Bull Run a fee equal to 1% of the purchase price for services performed, of which $58,000 was due and included in accounts payable at June 30, 1997.

On August 1, 1997, the Company purchased the assets of WITN-TV ("WITN"). The purchase price was approximately $40.7 million, excluding assumed liabilities of approximately $500,000. The Company funded the costs of this acquisition through its Senior Credit Facility. WITN operates on Channel 7 and is the NBC affiliate in the Greenville-Washington-New Bern, North Carolina market. In connection with the purchase of the assets of WITN, the Company will pay Bull Run a fee equal to 1% of the purchase price for services performed, of which $300,000 was due and included in accounts payable at June 30, 1997.

NOTE C--STOCKHOLDERS' EQUITY

During 1996 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 and six months ended June 30, 1996, the Company recognized approximately $72,000 and $144,000, respectively in amortization costs for the $2.6 million original issue discount.

NOTE C--STOCKHOLDERS' EQUITY (continued)

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 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 3.5 million 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 were used in the financing of the First American Acquisition.

During the three months ended June 30, 1997, the Company purchased 58,700 shares of Class A Common stock at an average cost of $19.08 per share. The Company placed these shares in treasury.

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.

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 June 30, 1997, the Company had approximately $20.2 million outstanding on the Senior Credit Facility and the interest rate was based on a spread over LIBOR of 2.00% and/or Prime.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Results of Operations of Gray Communications Systems, Inc.

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.

The Company derives its revenues from its television broadcasting, publishing and paging operations. On August 1, 1997 the Company purchased 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. (the "GulfLink Acquisition"), which is in the transportable satellite uplink business, a business in which the Company is already engaged. 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-TV 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 anticipates that the proportion of the Company's revenues derived from television broadcasting will increase further as a result of the acquisition of WITN-TV and GulfLink Communications, Inc. 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 June 30,			
	1997		1996	
	Amount	Percent of Total	Amount	Percent of Total
	(dollars in thousands)			
TELEVISION BROADCASTING				
Revenues	$ 17,783	69.7%	$ 12,802	69.2%
Operating income (1)	5,520	80.2	4,630	84.2
PUBLISHING				
Revenues	$ 6,082	23.9%	$ 5,685	30.8%
Operating income (1)	1,035	15.0	871	15.8
PAGING				
Revenues	$ 1,634	6.4%	$ -0-	-0-%
Operating income (1)	324	4.8	-0-	-0-

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

Results of Operations of Gray Communications Systems, Inc. (continued)

Introduction (continued)

	Six Months Ended June 30,			
	1997		1996	
	Amount	Percent of Total	Amount	Percent of Total
	(dollars in thousands)			
Television Broadcasting				
Revenues	$ 33,768	70.0%	$ 24,252	68.3%
Operating income (1)	9,281	78.3	7,757	85.9
Publishing				
Revenues	$ 11,306	23.4%	$ 11,262	31.7%
Operating income (1)	1,922	16.2	1,273	14.1
Paging				
Revenues	$ 3,185	6.6%	$ -0-	-0-%
Operating income (1)	657	5.5	-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 retail advertising, circulation and classified revenue. Paging revenue is derived primarily from the leasing and sale of pagers.

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

Most broadcast advertising contracts are short-term, and generally run only for a few weeks. Approximately 55.5% of the gross revenues of the Company's television stations for the three months and six months ended June 30, 1997, respectively, 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

Results of Operations of Gray Communications Systems, Inc. (continued)

Introduction (continued)

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.

Media Cash Flow

The following table sets forth certain operating data for the broadcast, publishing and paging operations for the three months and six months ended June 30, 1997 and 1996:

	Three Months Ended June 30,		Six Months Ended June 30,	
	1997	1996	1997	1996
	(in thousands)			
Operating income	$ 6,124	$ 4,633	$ 10,460	$ 7,311
Add:				
Amortization of program license rights	822	633	1,619	1,279
Depreciation and amortization	3,488	1,506	6,760	2,901
Corporate overhead	741	795	1,374	1,571
Non-cash compensation and contributions to the Company's 401-(k) plan, paid in common stock	95	119	210	251
Less:				
Payments for program license liabilities	(892)	(648)	(1,830)	(1,309)
Media Cash Flow (1)	$ 10,378	$ 7,038	$ 18,593	$ 12,004

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

Results of Operations of Gray Communications Systems, Inc. (continued)

Media Cash Flow (continued)

(1) Of Media Cash Flow for the three months ended June 30, 1997 and 1996, $8.2 million and $5.7 million, respectively, was attributable to the Company's broadcasting operations; $1.5 million and $1.3 million, respectively, was attributable to the Company's publishing operations; and $694,000 and $-0-, respectively, was attributable to the Company's paging operations. Of Media Cash Flow for the six months ended June 30, 1997 and 1996, $14.4 million and $9.9 million, respectively, was attributable to the Company's broadcasting operations; $2.8 million and $2.1 million, respectively, was attributable to the Company's publishing operations; and $1.4 million and $-0-, respectively was attributable to the Company's paging operations.

"Media Cash Flow" is defined as operating income, plus depreciation and amortization (including amortization of program license rights), non-cash compensation and corporate overhead, less payments for program license liabilities. The Company has included Media Cash Flow data because such data are commonly used as a measure of performance for media companies and are also used by investors to measure a company's ability to service debt. Media Cash Flow is not, and should not be used as, an indicator or alternative to operating income, net income or cash flow as reflected in the Company's 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 and six month periods ended June 30, 1997 and 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).

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 six months ended June 30, 1997 and 1996.

	Six Months Ended June 30,	
	1997	1996
	(in thousands)	
Cash flows provided by (used in)		
Operating activities	$ 5,460	$ 6,801
Investing activities	(11,784)	(37,490)
Financing activities	5,796	31,416

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

Results of Operations of Gray Communications Systems, Inc. (continued)

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 June 30,			
	1997		1996	
	Amount	Percent of Total	Amount	Percent of Total
	(dollars in thousands)			
Broadcasting				
Net revenues:				
Local	$ 9,804	38.5%	$ 7,070	38.2%
National	5,466	21.4	3,879	21.0
Network compensation	1,148	4.5	894	4.8
Political	106	0.4	573	3.1
Production and other	1,259	4.9	386	2.1
	$ 17,783	69.7%	$ 12,802	69.2%
Publishing				
Net revenues:				
Retail advertising	$ 2,895	11.4%	$ 2,692	14.6%
Classified	1,850	7.3	1,554	8.4
Circulation	1,227	4.8	1,074	5.8
Other	110	0.4	365	2.0
	$ 6,082	23.9%	$ 5,685	30.8%
Paging				
Net revenues:				
Paging lease and service	$ 1,664	6.5%	$ -0-	-0-%
Other	(30)	(0.1)	-0-	-0-
	$ 1,634	6.4%	$ -0-	-0-%
	$ 25,499	100.0%	$ 18,487	100.0%

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

Results of Operations of Gray Communications Systems, Inc. (continued)

Broadcasting, Publishing and Paging Revenues (continued)

	Six Months Ended June 30,			
	1997		1996	
	Amount	Percent of Total	Amount	Percent of Total
	(dollars in thousands)			
Broadcasting				
Net revenues:				
Local	$ 18,916	39.2%	$ 13,745	38.7%
National	10,231	21.2	6,968	19.6
Network compensation	2,281	4.7	1,761	5.0
Political	153	0.3	786	2.2
Production and other	2,187	4.6	992	2.8
	$ 33,768	70.0%	$ 24,252	68.3%
Publishing				
Net revenues:				
Retail advertising	$ 5,384	11.1%	$ 5,300	14.9%
Classified	3,467	7.2	3,036	8.5
Circulation	2,217	4.6	2,189	6.2
Other	238	0.5	737	2.1
	$ 11,306	23.4%	$ 11,262	31.7%
Paging				
Net revenues:				
Paging lease and service	$ 3,260	6.8%	$ -0-	-0-%
Other	(75)	(0.2)	-0-	-0-
	$ 3,185	6.6%	$ -0-	-0-%
	$ 48,259	100.0%	$ 35,514	100.0%

Three Months Ended June 30, 1997 compared to Three Months Ended June 30, 1996

Revenues. Total revenues for the three months ended June 30, 1997 increased $7.0 million, or 37.9%, over the same period of the prior year, from $18.5 million to $25.5 million. This increase was attributable to the net effect of (i) increased revenues resulting from the First American Acquisition and the GulfLink Acquisition, (ii) increased publishing revenues, (iii) decreased broadcasting revenues (excluding the First American Acquisition and the GulfLink Acquisition) and (iv) decreased revenues resulting from the KTVE Sale. The First American Acquisition and the GulfLink Acquisition accounted for $7.7 million and $350,000, respectively, of the revenue increase.

Broadcast net revenues increased $5.0 million, or 38.9%, over the same period of the prior year, from $12.8 million to $17.8 million. The First American Acquisition and the GulfLink Acquisition accounted for $6.0 million and $350,000, respectively, of the broadcast net revenue increase. On a pro forma basis, assuming the First American Acquisition had been effective on January 1, 1996, broadcast net revenues for the First American Acquisition for the three months ended June 30, 1997 decreased $120,000, or 1.9%, when compared to the same period of the prior year from $6.1 million to $6.0 million. The KTVE Sale resulted in a decrease in broadcast net revenues of $1.2 million. Broadcast net revenues, excluding the First American Acquisition, the GulfLink Acquisition and the operating results of KTVE, decreased $150,000, or 1.3%, when compared to the prior year.

Three Months Ended June 30, 1997 compared to Three Months Ended June 30, 1996 (continued)

This decrease was due primarily to decreased political advertising spending of $500,000 partially offset by increases in local advertising and other revenue of $200,000 and $140,000, respectively.

Publishing revenues increased $400,000, or 7.0%, over the same period of the prior year, from $5.7 million to $6.1 million. The increase in revenues was due primarily to an increase in retail, classified and circulation revenue of $200,000, 300,000 and $150,000, respectively, offset by a decrease in other revenue of $250,000.

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 June 30, 1997 increased $230,000, or 16.3%, over the same period of the prior year from $1.4 million to $1.6 million. The increase was attributable primarily to an increase in the number of pagers in service. The Company had approximately 57,000 pagers and 44,000 pagers in service at June 30, 1997 and 1996, respectively.

Operating expenses. Operating expenses for the three months ended June 30, 1997 increased $5.5 million, or 39.8%, over the same period of the prior year, from $13.9 million to $19.4 million, due primarily to the First American Acquisition and the GulfLink Acquisition, partially offset by the KTVE Sale. The First American Acquisition and the GulfLink Acquisition accounted for $4.1 million and $300,000 (exclusive of depreciation and amortization), respectively, of the operating expense increase.

Broadcast expenses increased $2.5 million, or 35.1%, over the three months ended June 30, 1996, from $7.1 million to $9.6 million. The increase was attributable primarily to the First American Acquisition and GulfLink 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 June 30, 1997 increased $300,000, or 9.1%, over the three months ended June 30, 1996 from $2.9 million to $3.2 million. The KTVE Sale resulted in a decrease in broadcast expenses of $900,000. Broadcast expenses, excluding the results of the First American Acquisition, the GulfLink Acquisition and the KTVE Sale, decreased $100,000, or 1.6%.

Publishing expenses for the three months ended June 30, 1997 increased $200,000, or 4.8%, from the same period of the prior year, from $4.4 million to $4.6 million. This increase resulted primarily from an increase in expenses associated with an expansion of the news product at one of the Company's properties partially offset by a decrease in work force related costs and improved newsprint pricing. Average newsprint costs decreased approximately 9.8% while newsprint consumption increased approximately 16.4%.

Paging expenses increased $950,000 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 June 30, 1997 remained relatively constant at approximately $950,000.

Corporate and administrative expenses for the three months ended June 30, 1997 decreased $55,000, or 6.9%, over the same period of the prior year, from $795,000 to $740,000. 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 $3.5 million for the three months ended June 30, 1997, as compared to $1.5 million for the same period of the prior year, an increase of $2.0 million, or 131.6%. This increase was primarily the result of higher depreciation and amortization costs related to the First American Acquisition and the GulfLink Acquisition.

Interest expense. Interest expense increased $2.9 million, or 129.3%, from $2.2 million for the three months ended June 30, 1996 to $5.1 million for the three months ended June 30, 1997. This increase was

Three Months Ended June 30, 1997 compared to Three Months Ended June 30, 1996 (continued)

attributable primarily to increased levels of debt resulting from the financing of the First American Acquisition and the GulfLink Acquisition.

Net income. Net income available to common stockholders of the Company was $272,000 for the three months ended June 30, 1997, as compared with net income of $1.5 million for the same period of the prior year, a decrease of $1.2 million.

Six Months Ended June 30, 1997 compared to Six Months Ended June 30, 1996

Revenues. Total revenues for the six months ended June 30, 1997 increased $12.7 million, or 35.9%, over the same period of the prior year, from $35.5 million to $48.3 million. This increase was attributable to the net effect of (i) increased revenues resulting from the First American Acquisition and the GulfLink Acquisition, (ii) increased publishing revenues, (iii) increased broadcasting revenues (excluding the First American Acquisition and the GulfLink Acquisition) and (iv) decreased revenues resulting from the KTVE Sale. The First American Acquisition and the GulfLink Acquisition accounted for $14.5 million and $350,000, respectively, of the revenue increase.

Broadcast net revenues increased $9.5 million, or 39.2%, over the same period of the prior year, from $24.3 million to $33.8 million. The First American Acquisition and the GulfLink Acquisition accounted for $11.3 million and $350,000, respectively, of the broadcast net revenue increase. On a pro forma basis, assuming the First American Acquisition had been effective on January 1, 1996, broadcast net revenues for the First American Acquisition for the six months ended June 30, 1997 and 1996 remained constant at $11.3 million. The KTVE Sale resulted in an decrease in broadcast net revenues of $2.3 million. Broadcast net revenues, excluding the First American Acquisition, the GulfLink Acquisition and the operating results of KTVE, remained level due primarily to increased local and national advertising revenue of $500,000 and $350,000, respectively, partially offset by decreases in political advertising spending of $650,000.

Publishing revenues as compared to the same period of the prior year, remained constant at $11.3 million. While total publishing revenue did not change, retail and classified revenue increased $100,000 and 400,000, respectively, offset by a decrease in other revenue of $500,000.

Paging revenue increased $3.2 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 six months ended June 30, 1997 increased $450,000, or 16.1%, over the same period of the prior year from $2.7 million to $3.2 million. The increase was attributable primarily to an increase in the number of pagers in service. The Company had approximately 57,000 pagers and 44,000 pagers in service at June 30, 1997 and 1996, respectively.

Operating expenses. Operating expenses for the six months ended June 30, 1997 increased $9.6 million, or 34.0%, over the same period of the prior year, from $28.2 million to $37.8 million, due primarily to the First American Acquisition and the GulfLink Acquisition, partially offset by the KTVE Sale. The First American Acquisition and the GulfLink Acquisition accounted for $8.3 million and $300,000 (exclusive of depreciation and amortization), respectively, of the operating expense increase.

Broadcast expenses increased $4.9 million, or 33.9%, over the six months ended June 30, 1996, from $14.4 million to $19.3 million. The increase was attributable primarily to the First American Acquisition and GulfLink 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 six months ended June 30, 1997 increased $600,000, or 10.1%, over the six months ended June 30, 1996 from $5.9 million to $6.5 million. The KTVE Sale resulted in a decrease in broadcast expenses of $1.7 million. Broadcast expenses, excluding the results of the First American Acquisition, the GulfLink Acquisition and the KTVE Sale, decreased $200,000, or 1.3%.

Six Months Ended June 30, 1997 compared to Six Months Ended June 30, 1996 (continued)

Publishing expenses for the six months ended June 30, 1997 decreased $700,000, or 7.2%, from the same period of the prior year, from $9.2 million to $8.5 million. This decrease resulted primarily from a decrease in work force related costs, improved newsprint pricing, and restructuring of the advertising publications partially offset by expenses associated with an expansion of the news product at one of the Company's properties. Average newsprint costs decreased approximately 16.8% while newsprint consumption increased approximately 6.0%.

Paging expenses increased $1.8 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 expenses for the six months ended June 30, 1997 remained relatively constant at approximately $1.8 million.

Corporate and administrative expenses for the six months ended June 30, 1997 decreased $200,000, or 12.5%, over the same period of the prior year, from $1.6 million to $1.4 million. 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 $6.8 million for the six months ended June 30, 1997, as compared to $2.9 million for the same period of the prior year, an increase of $3.9 million, or 133.0%. This increase was primarily the result of higher depreciation and amortization costs related to the First American Acquisition and the GulfLink Acquisition.

Interest expense. Interest expense increased $5.7 million, or 126.3%, from $4.4 million for the six months ended June 30, 1996 to $10.1 million for the six months ended June 30, 1997. This increase was attributable primarily to increased levels of debt resulting from the financing of the First American Acquisition and the GulfLink Acquisition.

Net income (loss). Net loss available to common stockholders of the Company was $539,000 for the six months ended June 30, 1997, as compared with a net income of $1.8 million for the same period of the prior year, a decrease of $2.3 million.

Liquidity and Capital Resources

The Company's working capital (deficiency) was $4.7 million and ($342,000) at June 30, 1997 and December 31, 1996, respectively. The Company's cash provided from operations was $5.5 million and $6.8 million for the six months ended June 30, 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 June 30, 1997 was $20.2 million and $101.1 million, respectively.

The Company's cash used in investing activities was $11.8 million and $37.5 million for the six months ended June 30, 1997 and 1996, respectively. The decreased usage of $25.7 million from 1996 to 1997 was primarily due to the Augusta Acquisition in 1996 partially offset by the GulfLink Acquisition and increased capital expenditures in 1997.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

Liquidity and Capital Resources (continued)

The Company's cash provided by financing activities was $5.8 million and $31.4 million for the six months ended June 30, 1997 and 1996, respectively. The decrease in cash provided resulted primarily from the funding obtained for the Augusta Acquisition in 1996 partially offset by the borrowings for the GulfLink Acquisition, purchase of treasury stock and increased capital expenditures in 1997. During the three months ended June 30, 1997, the Company purchased 58,700 shares of Class A Common stock at an average cost of $19.08 per share. The Company placed these shares in treasury.
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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 six months ended June 30, 1997, the Company paid $1.8 million for such program broadcast rights.

In connection with the First American Acquisition, the Federal Communications Commission (the "FCC") ordered 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 would not be required. The FCC is not expected to complete its rulemaking on this subject until later in 1997. Accordingly, the Company requested and in July of 1997 received an extension of the divestiture deadline with regard to WJHG conditioned upon the outcome of the rulemaking proceedings. Also in July of 1997, the Company obtained FCC approval to transfer control of WALB to a trust with a view towards the trustee effecting i) a swap of WALB's 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, or ii) a sale of such assets. Under the trust arrangement, the Company relinquished operating control of the station to a trustee while retaining the economic risks and benefits of ownership. If the trustee is required to effect a sale of WALB, the Company would incur a significant gain and related tax liability, the payment of which could have an adverse effect on the Company's ability to acquire comparable assets without incurring additional indebtedness. The FCC has allowed up to six months for the trustee to file an application seeking the agency's approval of a swap or sale. The approval process is expected to take between two and six months.

The Company and its subsidiaries file a consolidated federal income tax return and such state or local tax returns as are required. As of June 30, 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.

In February 1997, the Financial Accounting Standards Board issued Statement No. 128, Earnings Per Share, which is required to be adopted by 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 second quarter and six month period ended June 30, 1997 and 1996 would not be material.

PART II. OTHER INFORMATION

Item 4. Submission of Matters to a Vote of Security Holders

The following matters were voted upon at the 1997 Annual Meeting of Stockholders of Gray Communications Systems, Inc. on May 1, 1997, and votes were cast as indicated:

(1) Election of Directors:

Nominee	For	Withheld Authority
Richard L. Boger	42,048,198	15,320
Hilton H. Howell, Jr.	42,048,198	15,320
William E. Mayher, III	42,032,748	30,770
Howell W. Newton	42,048,198	15,320
Hugh Norton	42,046,698	16,820
Robert S. Prather, Jr.	42,048,198	15,320
J. Mack Robinson	42,045,698	17,820

(2) Approval of the appointment of Ernst & Young, LLP as the independent auditors of the Company and its subsidiaries for the year ending December 31, 1997.

For	Against	Abstain
42,046,193	15,210	2,115

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: August 11, 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 June 30,		Six Months Ended June 30,	
	1997	1996	1997	1996
Primary:				
Weighted average shares outstanding	7,943,309	4,464,459	7,891,432	4,454,038
Common Stock Equivalents - based on Treasury stock method using average market price	117,932	243,105	0	202,653
Totals	8,061,241	4,707,564	7,891,432	4,656,691
Net income (loss) available to common Stockholders	$ 271,876	$1,490,484	$ (539,223)	$1,801,695
Primary per share amounts:				
Net income (loss) available to Common stockholders	$ 0.03	$ 0.32	$ (0.07)	$ 0.39
Fully diluted:				
Weighted average shares outstanding	7,943,309	4,464,459	7,891,432	4,454,038
Common Stock Equivalents - based on the Treasury stock method using the greater of the quarter-end market price or the average market price	177,297	285,658	0	239,008
Totals	8,120,606	4,750,117	7,891,432	4,693,046
Net income (loss) available to Common stockholders	$ 271,876	$1,490,484	$ (539,223)	$1,801,695
Fully diluted per share amounts:				
Net income (loss) available to Common stockholders	$ 0.03	$ 0.31	$ (0.07)	$ 0.38